

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Hillsdale County		County Hillsdale
Audit Date December 31, 2004	Opinion Date July 29, 2005	Date Accountant Report Submitted to State: November 10, 2005		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

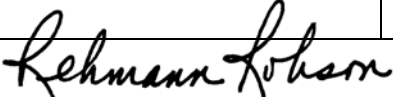
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).	X		

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

COUNTY OF HILLSDALE, MICHIGAN



Financial Statements

For the Fiscal Year Ended December 31, 2004



REHMANN ROBSON

Certified Public Accountants

HILLSDALE COUNTY, MICHIGAN

TABLE OF CONTENTS

For the Fiscal Year Ended December 31, 2004

PAGE

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8-9
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	10
Reconciliation of Fund Balances on the Balance Sheet for Governmental Funds to Net Assets of Governmental Activities on the Statement of Net Assets	11
Statement of Revenue, Expenditures and Changes in Fund Balances – Governmental Funds.....	12
Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Statement of Revenue, Expenditures and Changes in Fund Balance – Amended Budget and Actual:	
General Fund.....	14-18
Revenue Sharing Reserve Fund	19
Statement of Net Assets - Proprietary Funds	20
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	21
Statement of Cash Flows – Proprietary Funds	22-23
Statement of Fiduciary Net Assets – Fiduciary Funds	24
Combining Statement of Net Assets – Component Units	25
Combining Statement of Activities – Component Units	26
Notes to the Financial Statements	27-56
 Combining and Individual Fund Financial Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	57-58
Combining Statement of Revenue, Expenditures and Changes in Fund Balances– Nonmajor Governmental Funds	59-60
 Nonmajor Enterprise Funds	
Combining Statement of Net Assets.....	61
Combining Statement of Revenue, Expenses, and Changes in Fund Net Assets	62
Combining Statement of Cash Flows	63-64

HILLSDALE COUNTY, MICHIGAN

TABLE OF CONTENTS (Concluded)

For the Fiscal Year Ended December 31, 2004

	<u>PAGE</u>
Fiduciary Funds	
Combining Balance Sheet – Agency Funds.....	65
Drain Commission Component Unit	
Statement of Net Assets and Governmental Funds Balance Sheet.....	66
Reconciliation of Governmental Fund Balance Sheet to Statement of Net Assets.....	67
Statement of Activities/Governmental Funds Revenue, Expenditures and Changes in Fund Balances	68
Reconciliation of the General Fund Revenue, Expenditures and Changes in Fund Balance to the Statement of Activities.....	69
Statement of Activities/Governmental Funds Revenue, Expenditures and Changes in Fund Balances – Internal Service Drain Equipment Revolving Fund	70
 SINGLE AUDIT ACT COMPLIANCE	
Schedule of Expenditures of Federal Awards.....	71
Notes to the Schedule of Expenditures of Federal Awards.....	72
Independent Auditors’ Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	73-74
Independent Auditors’ Report on Compliance with Requirements Applicable to Major Programs and Internal Control Over Compliance in Accordance with OMB Circular A-133.....	75-76
Schedule of Findings and Questioned Costs.....	77-78

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

July 29, 2005

Board of Commissioners
County of Hillsdale, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **COUNTY OF HILLSDALE, MICHIGAN**, as of and for the year ended December 31, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Medical Care Facility Enterprise Fund, which is a major fund, and therefore, a separate opinion unit. The Medical Care Facility represents 51% and 87% of the business-type activity assets and program revenues, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Medical Care Facility, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Hillsdale, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparisons for the General and Major Special Revenue Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 29, 2005, on our consideration of the **County of Hillsdale, Michigan's** internal controls over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hillsdale County's basic financial statements. The combining and individual fund financial statements and the schedule of expenditures of federal awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, are fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

MANAGEMENT'S DISCUSSION and ANALYSIS

COUNTY OF HILLSDALE, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The following discussion and analysis of the financial performance for County of Hillsdale ("County") provides an overview of the County's financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the County's financial statements which follow this section.

Financial Highlights

The following represents the most significant financial highlights for the year ended December 31, 2004:

- In 2004, the State of Michigan mandated a change in the way Michigan counties are funded. Revenue sharing for counties was eliminated and replaced by a shift in the county property tax collections over the course of the next 3 1/2 years. Counties are required to set aside 1/3 of property tax collections each year for three years to supplement the lost revenue sharing.
- The year 2004 was the fourth year in a row of 20+% increases in employee health insurance costs.
- During 2004, contracts were settled with three of the four employee labor unions. Changes were made to health insurance coverages which benefited both employer and employee.

Overview of the Financial Statements

The County's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The *government-wide financial statements* are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business and, therefore, are prepared using the accrual basis of accounting. These statements provide a longer-term view of the County's finances and whether taxpayers have funded the full cost of providing government services. The first two statements are government-wide and include the following:

- The *statement of net assets* presents information on all of the County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.
- The *statement of activities* presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Hillsdale, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report the County's operations in more detail than the government-wide financial statements. These statements present a short-term view and tell how taxpayer resources were spent during the year. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statement, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Proprietary Funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. *Internal service funds* are an accounting device used to accumulate and allocate workers compensation costs internally among the County's various functions. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the County of Hillsdale's own programs. The basis of accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The County as a Whole

The Statement of Net Assets and the Statement of Activities report information about the County as a whole and about its activities in a way that helps explain the condition of the County. These statements include all assets and liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) of the County as of the end of the current and prior year.

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Current Assets	\$ 4,384	\$ 8,590	\$ 5,354	\$ 8,171	\$ 9,738	\$ 16,761
Capital Assets	4,025	3,862	4,184	3,897	8,209	7,759
Total Assets	\$ 8,409	\$ 12,452	\$ 9,538	\$ 12,068	\$ 17,947	\$ 24,520
Current Liabilities	\$ 4,030	\$ 4,669	\$ 2,335	\$ 4,606	\$ 6,365	\$ 9,275
Long-term Liabilities	1,681	1,732	3,565	4,370	5,246	6,102
Total Liabilities	\$ 5,711	\$ 6,401	\$ 5,900	\$ 8,976	\$ 11,611	\$ 15,377
Net Assets:						
Invested in Capital Assets, net of debt	\$ 2,465	\$ 2,382	\$ 2,209	\$ 3,897	\$ 4,674	\$ 6,279
Restricted	0	342	118	276	118	618
Unrestricted	233	3,327	1,312	(1,081)	1,545	2,246
Total Net Assets	\$ 2,698	\$ 6,051	\$ 3,639	\$ 3,092	\$ 6,337	\$ 9,143

The County's combined net assets increased 44.3% from a year ago - - increasing from \$6.34 million to \$9.14 million. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities experienced an increase of \$3.35 million (124% increase). This was mainly the result of the following factors:

- The State-mandated shift in property tax increased revenue by \$1 million.
- There was a \$2.4 million restatement of beginning net assets.

The business-type activities experienced a \$547 thousand decrease in net assets (15.0%), mainly due to a net loss of \$529 thousand at the County Medical Care Facility.

The following table shows the changes in net assets (in thousands of dollars) of the County during the current and prior year.

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Program Revenues						
Charges for Services	\$ 1,747	\$ 2,536	\$ 9,919	\$ 11,067	\$ 11,666	\$ 13,603
Operating Grants and Contributions	1,790	2,982	66	1,799	1,856	4,781
Capital Grants and Contributions	467	0	0	0	467	0
General Revenues						
Property Taxes levied for general purposes	6,817	7,861	0	0	6,817	7,861
Property Taxes levied for special purposes	0	0	577	0	577	0
Proportionate Share Revenue	0	0	234	0	234	0
State Shared Revenue	0	277	0	0	0	277
Fines and Forfeitures	479	0	0	0	479	0
Reimbursements and Refunds	613	0	0	0	613	0
Miscellaneous	579	0	439	0	1,018	0
Unrestricted Investment Earnings	174	117	392	0	566	117
Transfers and Other Revenue	435	406	(435)	(406)	0	0
Total Revenues	\$ 13,101	\$ 14,179	\$ 11,192	\$ 12,460	\$ 24,293	\$ 26,639
Program Expenses						
General Government	\$ 1,923	\$ 2,304	\$ 0	\$ 0	\$ 1,315	\$ 2,304
Legislative	131	110	0	0	131	110
Judicial	1,738	1,722	0	0	2,070	1,722
Public Safety	3,484	3,543	0	0	3,816	3,543
Public Works	18	18	0	0	18	18
Health and Welfare	2,244	2,085	0	0	1,912	2,085
Other governmental activities	2,793	3,477	0	0	3,069	3,477
Interest on Long-Term Debt	198	(1)	0	0	198	(1)
Medical Care Facility Operations	0	0	10,906	11,579	10,906	11,579
Delinquent Tax Collection	0	0	114	110	114	110
Emergency Services	0	0	742	865	742	865
Geographic Information Services	0	0	100	83	100	83
Board of Public Works	0	0	0	355	0	355
Total Expenses	\$ 12,529	\$ 13,258	\$ 11,862	\$ 12,992	\$ 24,391	\$ 26,250
Change in Net Assets	\$ 572	\$ 921	\$ (670)	\$ (532)	\$ (98)	\$ 389

Governmental Activities

The County's total governmental revenues increased by \$1.0 million this year, primarily due to the property tax shift connected with the change in county funding by the State of Michigan.

Expenses increased by about \$729 thousand during the year due mostly to a \$450 thousand increase in employee benefit costs.

Business-Type Activities

The County's business-type activities consist primarily of the Medical Care Facility, E-911 Emergency Fund, and the Tax Payment Funds. Medical Care Facility revenue increased approximately \$784 thousand and expenses increased approximately \$673 thousand, but the Facility still showed a net loss of \$529,000. The revenues and expenses in E-911 Emergency Fund increased \$197 thousand and \$123 thousand, respectively. The revenues and expenses of the Tax Payments Funds were very similar for the two years.

The County's Funds

The fund financial statements provide detailed information about the most significant funds, not the County as a whole. The County Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The County's major funds for 2004 include the General Fund and the Revenue Sharing Reserve Fund.

The General Fund pays for most of the County's governmental services. The most significant are public safety, general government, employee benefits, and judicial, which incurred expenses of approximately \$2.9 million, \$2.2 million, \$2.1 million, and \$1.7 million, respectively. Some of these services are partially supported by State and Federal grants, with the remaining cost funded by general revenue sources of the General Fund.

General Fund Budgetary Highlights

The year ended December 31, 2004 was the second year in a row that the General Fund spent more than the revenue for the year. Over the course of the year, the Board of Commissioners amended the budget to take into account unexpected events during the year. The most significant change was an increase of \$288,000 in Employee Benefits.

Capital Asset and Debt Administration

At the end of the fiscal year 2004, the County had approximately \$7,758,921 (net of depreciation) invested in a broad range of capital assets, including land, buildings, vehicles, equipment, etc. Details of the County's capital assets are continued in the notes to the financial statements.

The County continues to pay down debt obligations related to capital investments. At December 31, 2004, debt related to capital assets of governmental activities totaled \$1,480,000. Debt related to business-type activities totaled \$6,069,000, much of which is conduit debt for other local government units within the county.

Economic Factors and Next Year's Budgets and Rates

The County's 2005 budget takes into consideration several limiting factors which continue to impair counties in south-central Michigan. Continued weakness in Michigan's economy, climbing employee health insurance premiums, the ending of funding for the federal COPS Grant and a full house at the county jail are some of the factors which will limit growth in spending to provide essential services in Hillsdale County. Also, equipment purchases will continue to be limited to replacing existing equipment which is no longer serviceable.

Contacting the County's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the County's finances and to show the County's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the County Treasurer's office

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN
Statement of Net Assets
December 31, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,838,630	\$ 1,751,025	\$ 3,589,655	\$ 666,329
Receivables, net	6,744,666	6,419,761	13,164,427	1,109,557
Internal balances	-	-	-	-
Prepaid items and other assets	6,573	102	6,675	680,062
Capital assets not being depreciated	330,003	-	330,003	3,777,749
Capital assets being depreciated, net	3,532,263	3,896,655	7,428,918	26,414,300
Total assets	12,452,135	12,067,543	24,519,678	32,647,997
Liabilities				
Accounts payable and accrued expenses	266,586	2,199,715	2,466,301	680,674
Unearned revenue	4,282,536	706,933	4,989,469	-
Long-term liabilities:				
Due within one year	120,000	1,699,000	1,819,000	493,257
Due in more than one year	1,731,459	4,370,000	6,101,459	110,417
Total liabilities	6,400,581	8,975,648	15,376,229	1,284,348
Net assets				
Invested in capital assets, net of related debt	2,382,266	3,896,655	6,278,921	29,937,185
Restricted for:				
Debt service	455	-	455	-
Endowments and trusts	2,824	-	2,824	-
Other purposes	341,777	277,226	619,003	-
Unrestricted (deficit)	3,324,232	(1,081,986)	2,242,246	1,426,464
Total net assets	\$ 6,051,554	\$ 3,091,895	\$ 9,143,449	\$ 31,363,649

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities
For the Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 110,431	\$ -	\$ -	\$ -	\$ (110,431)
Judicial	1,721,644	858,173	1,177,653	-	314,182
General government	2,304,532	739,208	306,771	-	(1,258,553)
Public safety	3,542,897	629,526	695,334	-	(2,218,037)
Public works	17,668	-	-	-	(17,668)
Health and welfare	2,084,970	245,614	506,003	-	(1,333,353)
Recreation and cultural	72,358	37,203	25,594	-	(9,561)
Other governmental activities	3,404,484	26,891	270,290	-	(3,107,303)
Interest on long-term debt	(692)	-	-	-	692
Total governmental activities	<u>13,258,292</u>	<u>2,536,615</u>	<u>2,981,645</u>	<u>-</u>	<u>(7,740,032)</u>
Business-type activities:					
Medical Care Facility	11,578,831	10,005,893	1,043,477	-	(529,461)
Delinquent tax collections/forfeitures	110,538	400,715	266,018	-	556,195
Emergency services	864,965	659,994	134,463	-	(70,508)
Geographic information services	82,996	585	-	-	(82,411)
Board of Public Works	355,471	-	355,497	-	26
Total business-type activities	<u>12,992,801</u>	<u>11,067,187</u>	<u>1,799,455</u>	<u>-</u>	<u>(126,159)</u>
 Total primary government	 <u>\$ 26,251,093</u>	 <u>\$ 13,603,802</u>	 <u>\$ 4,781,100</u>	 <u>\$ -</u>	 <u>\$ (7,866,191)</u>
Component units					
County Drains	\$ 177,325	\$ 145,130	\$ 192,702	\$ -	\$ 160,507
County Roads	<u>6,943,944</u>	<u>1,873,766</u>	<u>5,344,640</u>	<u>724,046</u>	<u>998,508</u>
 Total component units	 <u>\$ 7,121,269</u>	 <u>\$ 2,018,896</u>	 <u>\$ 5,537,342</u>	 <u>\$ 724,046</u>	 <u>\$ 1,159,015</u>

continued...

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended December 31, 2004

Functions/Programs	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Changes in net assets				
Net (expense) revenue	\$ (7,740,032)	\$ (126,159)	\$ (7,866,191)	\$ 1,159,015
General revenues:				
Property taxes	7,860,818	-	7,860,818	-
State shared revenue	276,786	-	276,786	-
Unrestricted investment earnings	117,660	-	117,660	14,496
Transfers - internal activities	406,000	(406,000)	-	-
 Total general revenues, and transfers	 8,661,264	 (406,000)	 8,255,264	 14,496
 Change in net assets	 921,232	 (532,159)	 389,073	 1,173,511
Net assets, beginning of year, as restated	5,130,322	3,624,054	8,754,376	30,190,138
Net assets, end of year	<u><u>\$ 6,051,554</u></u>	<u><u>\$ 3,091,895</u></u>	<u><u>\$ 9,143,449</u></u>	<u><u>\$ 31,363,649</u></u>

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN
Balance Sheet
Governmental Funds
December 31, 2004

	General	Revenue Sharing Reserve	Nonmajor Funds	Totals
Assets				
Cash and cash equivalents	\$ 609,644	\$ -	\$ 1,222,720	\$ 1,832,364
Taxes receivable	4,282,536	1,877,936	-	6,160,472
Accounts receivable	61,084	-	16,716	77,800
Grants receivable	222,054	-	11,565	233,619
Prepaid expenditures	6,573	-	-	6,573
Due from other funds	526,665	-	-	526,665
Advance to component unit	257,969	-	-	257,969
Interest receivable	10,821	-	3,985	14,806
<u>TOTAL ASSETS</u>	<u>\$ 5,977,346</u>	<u>\$ 1,877,936</u>	<u>\$ 1,254,986</u>	<u>\$ 9,110,268</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ 81,782	\$ -	\$ 26,997	\$ 108,779
Accrued expenditures	64,217	-	10,963	75,180
Due to other governments	-	-	51,000	51,000
Due to other funds	-	526,665	-	526,665
Deposits	-	-	5,330	5,330
Deferred revenue	4,282,536	-	-	4,282,536
Total liabilities	4,428,535	526,665	94,290	5,049,490
Fund balances				
Reserved for advances	257,969	-	-	257,969
Reserved for family counseling	16,891	-	-	16,891
Reserved for survey and remonumentation	16,866	-	-	16,866
Unreserved:				
Undesignated	1,257,085	1,351,271	-	2,608,356
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	341,777	341,777
Debt service funds	-	-	455	455
Capital projects funds	-	-	815,640	815,640
Permanent funds	-	-	2,824	2,824
Total fund balances	1,548,811	1,351,271	1,160,696	4,060,778
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 5,977,346</u>	<u>\$ 1,877,936</u>	<u>\$ 1,254,986</u>	<u>\$ 9,110,268</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2004

Fund balances - total governmental funds	\$ 4,060,778
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets not being depreciated	330,003
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Add: capital assets being depreciated, net	3,532,263
--	-----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Add: net assets of governmental activities accounted for in internal service funds	(6,540)
--	---------

Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(1,480,000)
-------------------------	-------------

Subtract: compensated absences	(371,459)
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Subtract: accrued interest on long-term liabilities	(13,491)
---	----------

Net assets of governmental activities	<u>\$ 6,051,554</u>
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The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Revenue Sharing Reserve	Nonmajor Funds	Totals
Revenue				
Taxes and special assessments	\$ 5,240,851	\$ 1,877,936	\$ 742,031	\$ 7,860,818
Intergovernmental	2,203,160	-	(50)	2,203,110
Licenses and permits	81,365	-	-	81,365
Fines and forfeits	475,893	-	103,350	579,243
Charges for services	1,038,713	-	565,580	1,604,293
Reimbursements and refunds	515,039	-	17,684	532,723
Interest and rentals	389,374	-	14,728	404,102
Other revenue	-	-	449,870	449,870
Total revenue	9,944,395	1,877,936	1,893,193	13,715,524
Expenditures				
Current:				
Legislative	110,431	-	-	110,431
Judicial	1,696,311	-	18,045	1,714,356
General government	2,191,809	-	34,599	2,226,408
Public safety	2,979,627	-	519,765	3,499,392
Public works	17,668	-	-	17,668
Health and welfare	438,933	-	1,841,817	2,280,750
Recreation and cultural	-	-	72,358	72,358
Other	2,910,556	-	-	2,910,556
Capital outlay	133,603	-	81	133,684
Debt service:				
Principal	-	-	80,000	80,000
Interest	-	-	85,735	85,735
Total expenditures	10,478,938	-	2,652,400	13,131,338
Revenue over (under) expenditures	(534,543)	1,877,936	(759,207)	584,186
Other financing sources (uses)				
Transfers in	1,007,665	-	830,956	1,838,621
Transfers (out)	(896,851)	(526,665)	(9,105)	(1,432,621)
Total other financing sources (uses)	110,814	(526,665)	821,851	406,000
Net change in fund balances	(423,729)	1,351,271	62,644	990,186
Fund balances, beginning of year, as restated	1,972,540	-	1,098,052	3,070,592
Fund balances, end of year	\$ 1,548,811	\$ 1,351,271	\$ 1,160,696	\$ 4,060,778

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004

Net change in fund balances - total governmental funds	\$ 990,186
--	------------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: capital outlay	54,480
Subtract: depreciation expense	(217,353)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.

Add: principal payments on long-term liabilities	80,000
--	--------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: change in accrued interest on bonds	692
Subtract: increase in the accrual of compensated absences	(9,144)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities:

Add: net operating income from governmental activities accounted for in internal service funds	22,371
--	--------

Change in net assets of governmental activities	<div style="border-top: 1px solid black; border-bottom: 3px double black; display: inline-block; padding: 2px 0;">\$ 921,232</div>
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The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes				
Property taxes	\$ 5,279,100	\$ 5,279,100	\$ 5,240,851	\$ (38,249)
Intergovernmental				
Community Policing Grant	125,000	125,000	108,495	(16,505)
Juvenile Officer's Grant	28,000	28,000	20,488	(7,512)
Judges Salaries Grant	231,367	231,367	231,367	-
Juror Compensation Grant	-	-	2,927	2,927
Liquor Tax	75,000	75,000	72,073	(2,927)
Secondary Road Patrol Grant	96,883	96,883	105,744	8,861
Marine Safety Grant	20,600	20,600	18,091	(2,509)
Emergency Management Grant	3,000	3,000	3,388	388
Narcotics Grant	19,400	19,400	17,982	(1,418)
Drunk Driving Grant	15,000	15,000	15,770	770
Cigarette Tax Distribution	22,450	22,450	26,758	4,308
Prosecutor - Cooperative Reimbursement Program	45,000	45,000	52,091	7,091
FOC - Cooperative Reimbursement Program	410,000	410,000	402,095	(7,905)
FOC - Other	130,000	130,000	130,443	443
State revenue sharing	850,000	850,000	276,786	(573,214)
Survey and Remonumentation Grant	60,295	60,295	60,383	88
State court equity funding	265,000	265,000	289,565	24,565
Homeland security	-	-	240,491	240,491
Community Development	-	-	123,058	123,058
Other intergovernmental revenue	10,000	10,000	5,165	(4,835)
Total intergovernmental	2,406,995	2,406,995	2,203,160	(203,835)
Licenses and permits				
Dog licenses	66,000	66,000	60,620	(5,380)
Other licenses and permits	10,800	10,800	20,745	9,945
Total licenses and permits	76,800	76,800	81,365	4,565

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue (continued)				
Fines and forfeits				
Ordinance fines and costs	\$ 435,000	\$ 435,000	\$ 409,710	\$ (25,290)
Bond forfeitures	41,200	61,200	66,183	4,983
Total fines and forfeits	476,200	496,200	475,893	(20,307)
Charges for services				
Circuit Court	45,000	55,000	61,795	6,795
District Court	163,000	163,000	183,034	20,034
Friend of the Court	57,000	57,000	44,937	(12,063)
Probate/Family Court	22,000	22,000	19,537	(2,463)
Clerk	47,000	47,000	50,574	3,574
Register of deeds	395,000	409,500	415,616	6,116
Sheriff	36,000	36,000	78,734	42,734
Equalization	59,500	79,500	83,373	3,873
Other charges for services	111,400	111,400	101,113	(10,287)
Total charges for services	935,900	980,400	1,038,713	58,313
Interest and rentals				
Interest revenue	75,000	75,000	117,660	42,660
Rents	270,864	270,864	271,714	850
Total interest and rentals	345,864	345,864	389,374	43,510
Other revenue/reimbursements				
Reimbursements and refunds	490,175	641,275	515,039	(126,236)
Total revenue	10,011,034	10,226,634	9,944,395	(282,239)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures				
Legislative				
Board of Commissioners	\$ 121,350	\$ 121,350	\$ 110,431	\$ (10,919)
Judicial				
Circuit Court	179,348	179,348	150,388	(28,960)
District Court	428,053	429,630	446,654	17,024
Friend of the Court	440,336	440,336	400,402	(39,934)
Law Library	5,000	5,000	1,090	(3,910)
Jury Commission	3,600	3,600	3,054	(546)
Probate Court	536,133	536,133	521,342	(14,791)
Family/Juvenile Court	188,000	192,000	173,381	(18,619)
Total judicial	1,780,470	1,786,047	1,696,311	(89,736)
General government				
Elections	54,050	62,550	61,862	(688)
Clerk	253,006	253,006	238,611	(14,395)
Register of deeds	130,706	130,706	122,946	(7,760)
Planning	-	-	913	913
Equalization	171,177	171,177	164,628	(6,549)
Information technology	211,114	211,114	195,434	(15,680)
Prosecutor	338,180	332,180	333,120	940

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Continued)
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
General government (concluded)				
Survey & Remonumentation	\$ 46,400	\$ 39,285	\$ 40,485	\$ 1,200
Treasurer	251,580	251,580	232,953	(18,627)
MSU Extension	177,967	173,967	179,300	5,333
Courthouse and grounds	260,278	260,278	249,000	(11,278)
FOC Building	31,723	31,723	30,123	(1,600)
DHS Building	81,834	81,834	72,343	(9,491)
Broad Street Property	16,000	16,000	15,752	(248)
Drain Commissioner	181,350	181,350	121,511	(59,839)
Economic development	2,305	2,305	2,305	-
Community development	44,000	44,000	123,058	79,058
Bus Garage	7,000	7,000	7,465	465
Total general government	2,258,670	2,250,055	2,191,809	(58,246)
Public safety				
Sheriff's Department	1,511,367	1,511,367	1,519,945	8,578
Secondary Road Patrol Grant	126,176	126,176	131,289	5,113
Camden Patrol	5,000	5,000	4,397	(603)
Marine Patrol	28,645	28,645	30,882	2,237
Narcotics enforcement	65,606	65,606	58,826	(6,780)
Universal hiring	162,170	175,170	175,314	144
Operation Spotlight	6,000	6,000	5,975	(25)
Truancy officer	66,535	75,535	77,593	2,058
Jail Operation	711,819	711,819	695,194	(16,625)
Emergency Preparedness	36,064	36,064	256,444	220,380
Animal control	48,185	48,185	23,768	(24,417)
Total public safety	2,767,567	2,789,567	2,979,627	190,060
Public works				
Board of Public Works	18,655	18,655	17,668	(987)

continued...

COUNTY OF HILLSDALE, MICHIGAN
General Fund
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual (Concluded)
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Health and welfare				
Health Department	\$ 45,725	\$ 45,725	\$ 39,393	\$ (6,332)
Medical Examiner	46,235	55,235	45,710	(9,525)
Veteran's Burial	17,100	17,100	16,177	(923)
Veteran's Affairs Office	71,862	71,862	63,144	(8,718)
District Health Department	274,509	274,509	274,509	-
Total health and welfare	180,922	189,922	438,933	249,011
Other				
Employee Benefits	1,692,000	1,980,000	2,134,761	154,761
Property/Liability Insurance	306,600	403,600	330,763	(72,837)
Other	293,776	300,676	262,274	(38,402)
Appropriations	320,336	342,755	182,758	(159,997)
Total other	2,292,376	2,684,276	2,910,556	226,280
Capital outlay	190,662	200,662	133,603	(67,059)
Total expenditures	9,610,672	10,040,534	10,478,938	438,404
Revenue over (under) expenditures	400,362	186,100	(534,543)	(720,643)
Other financing sources (uses)				
Transfers in	500,000	500,000	1,007,665	507,665
Transfers (out)	(821,971)	(821,971)	(896,851)	(74,880)
Total other financing (uses)	(321,971)	(321,971)	110,814	432,785
Net change in fund balances	78,391	(135,871)	(423,729)	(287,858)
Fund balance, beginning of year, as restated	1,972,540	1,972,540	1,972,540	-
Fund balance, end of year	\$ 2,050,931	\$ 1,836,669	\$ 1,548,811	\$ (287,858)

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
Revenue Sharing Reserve Fund
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes	\$ -	\$ -	\$ 1,877,936	\$ 1,877,936
Expenditures				
General government	-	-	-	-
Revenue over expenditures	-	-	1,877,936	1,877,936
Other financing sources (uses)				
Transfers out	-	-	(526,665)	(526,665)
Total other financing sources (uses)	-	-	(526,665)	(526,665)
Net changes in fund balances	-	-	1,351,271	1,351,271
Fund balances, beginning of year	-	-	-	-
Fund balances end of year	\$ -	\$ -	\$ 1,351,271	\$ 1,351,271

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Statement of Net Assets

Proprietary Funds

December 31, 2004

	Enterprise Funds			
	Medical Care Facility	2003 Delinquent Tax Revolving	BPW #1 City of Litchfield	BPW #6 Village of Jonesville
Assets				
Current assets:				
Cash and cash equivalents	\$ 21,591	\$ 568,538	\$ 711	\$ 32
Taxes receivable	657,863	842,420	-	-
Accounts receivable	2,168,865	-	-	-
Prepaid expenses	-	-	-	-
Interest receivable	-	7,087	-	-
Current portion of leases receivable	-	-	115,000	35,000
Noncurrent assets:				
Leases receivable, net of current portion	-	-	1,030,000	1,150,000
Capital assets not being depreciated	-	-	-	-
Capital assets being depreciated, net	3,761,976	-	-	-
Total assets	6,610,295	1,418,045	1,145,711	1,185,032
Liabilities				
Current liabilities:				
Accounts payable	245,909	-	-	-
Accrued liabilities	885,099	-	-	-
Due to other governments	-	-	-	-
Checks drawn in excess of bank balance	1,028,337	-	-	-
Deferred revenue	706,933	-	-	-
Current portion of long-term debt	95,000	900,000	115,000	35,000
Long-term liabilities:				
Due in more than one year	1,790,000	400,000	1,030,000	1,150,000
Total liabilities	4,751,278	1,300,000	1,145,000	1,185,000
Net assets				
Invested in capital assets, net of related debt	3,761,976	-	-	-
Restricted by statute	-	-	-	-
Unrestricted (deficit)	(1,902,959)	118,045	711	32
Total net assets	\$ 1,859,017	\$ 118,045	\$ 711	\$ 32

The accompanying notes are an integral part of these financial statements.

		Internal Service	
Nonmajor Funds	Totals	Self Insurance	
\$ 1,160,153	\$ 1,751,025	\$	6,266
208,275	1,708,558		-
94,289	2,263,154		-
102	102		-
6,962	14,049		-
104,000	254,000		-
-	2,180,000		-
-	-		-
134,679	3,896,655		-
1,708,460	12,067,543		6,266
15,212	261,121		12,806
6,476	891,575		-
18,682	18,682		-
-	1,028,337		-
-	706,933		-
554,000	1,699,000		-
-	4,370,000		-
594,370	8,975,648		12,806
134,679	3,896,655		-
277,226	277,226		-
702,185	(1,081,986)		(6,540)
\$ 1,114,090	\$ 3,091,895	\$	(6,540)

COUNTY OF HILLSDALE, MICHIGAN
Statement of Revenue, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds			
	Medical Care Facility	2003 Delinquent Tax Revolving	BPW #1 City of Litchfield	BPW #6 Village of Jonesville
Operating revenue				
Charges for services	\$ 10,005,893	\$ 73,158	\$ -	\$ -
Refunds and reimbursements	328,820	-	-	-
Other operating revenue	46,841	-	134,030	101,100
Total operating revenue	10,381,554	73,158	134,030	101,100
Operating expense				
Cost of services	11,475,462	16,123	134,030	101,100
Total operating expense	11,475,462	16,123	134,030	101,100
Operating income (loss)	(1,093,908)	57,035	-	-
Non-operating revenue (expenses)				
Property tax revenue	601,818	-	-	-
Gain (loss) on sale of property	(14,458)	-	-	-
Noncapital grants and contributions	64,240	-	-	-
Interest and rentals	1,758	76,021	21	1
Interest expense	(88,911)	(15,011)	-	-
Total non-operating revenue (expenses)	564,447	61,010	21	1
Income (loss) before transfers	(529,461)	118,045	21	1
Transfers in (out)				
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Total transfers	-	-	-	-
Change in net assets	(529,461)	118,045	21	1
Net assets, beginning of year, as restated	2,388,478	-	690	31
Net assets, end of year	\$ 1,859,017	\$ 118,045	\$ 711	\$ 32

The accompanying notes are an integral part of these financial statements.

		Internal Service	
Nonmajor Funds	Totals	Self Insurance	
\$ 988,136	\$ 11,067,187	\$ -	
53,982	382,802	-	
198,826	480,797	58,000	
1,240,944	11,930,786	58,000	
1,127,248	12,853,963	35,629	
1,127,248	12,853,963	35,629	
113,696	(923,177)	22,371	
-	601,818	-	
-	(14,458)	-	
-	64,240	-	
191,997	269,798	-	
(20,458)	(124,380)	-	
171,539	797,018	-	
285,235	(126,159)	22,371	
75,000	75,000	-	
(481,000)	(481,000)	-	
(406,000)	(406,000)	-	
(120,765)	(532,159)	22,371	
1,234,855	3,624,054	(28,911)	
\$ 1,114,090	\$ 3,091,895	\$ (6,540)	

COUNTY OF HILLSDALE, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Enterprise Funds			
	Medical Care Facility	2003 Delinquent Tax Revolving	BPW #1 City of Litchfield	BPW #6 Village of Jonesville
Cash flows from operating activities				
Cash received from customers	\$ 9,072,974	\$ 73,158	\$ 134,030	\$ 134,030
Other operating receipts	332,387	-	-	-
Cash payments to suppliers for goods and services	(10,222,333)	(865,630)	(134,030)	(134,030)
Net cash provided by (used in) operating activities	(816,972)	(792,472)	-	-
Cash flows from non-capital financing activities				
Property tax revenue	601,818	-	-	-
Contributions and other	68,055	-	-	-
Tax notes redeemed	-	(700,000)	-	-
Transfers in	-	-	-	-
Transfers (out)	-	-	-	-
Net cash provided (used) by non-capital financing activities	669,873	(700,000)	-	-
Cash flows from capital and related financing activities				
Purchase of capital assets	(72,477)	-	-	-
Interest payments	(88,911)	(15,011)	-	-
Principal payments	(90,000)	-	(110,000)	(35,000)
Proceeds from long-term debt	-	2,000,000	-	-
Net cash provided (used) by capital and related financing activities	(251,388)	1,984,989	(110,000)	(35,000)
Cash flows from investing activities				
Interest and rental earnings	1,758	76,021	21	1
Proceeds from investments	-	-	-	-
Amounts collected on leases receivable	-	-	110,000	35,000
Net cash provided by investing activities	1,758	76,021	110,021	35,001
Net increase (decrease) in cash and cash equivalents	(396,729)	568,538	21	1
Cash and cash equivalents, beginning of year	418,320	-	690	31
Cash and cash equivalents, end of year	\$ 21,591	\$ 568,538	\$ 711	\$ 32
Reconciliation to the Statement of Net Assets				
Cash and cash equivalents	\$ 21,591	\$ 568,538	\$ 711	\$ 32
Restricted cash	-	-	-	-
	\$ 21,591	\$ 568,538	\$ 711	\$ 32

		Internal Service	
Nonmajor Funds	Totals	Self Insurance	
\$ 2,262,529	\$ 11,676,721	\$ 62,499	
-	332,387	-	
(1,155,317)	(12,511,340)	(56,233)	
1,107,212	(502,232)	6,266	
-	601,818	-	
-	68,055	-	
(1,450,000)	(2,150,000)	-	
75,000	75,000	-	
(481,000)	(481,000)	-	
(1,856,000)	(1,886,127)	-	
-	(72,477)	-	
(20,458)	(124,380)	-	
(109,000)	(344,000)	-	
-	2,000,000	-	
(129,458)	1,459,143	-	
191,997	269,798	-	
1,255,000	1,255,000	-	
109,000	254,000	-	
1,555,997	1,778,798	-	
677,751	849,582	6,266	
482,402	901,443	-	
<u>\$ 1,160,153</u>	<u>\$ 1,751,025</u>	<u>\$ 6,266</u>	
\$ 1,160,153	\$ 1,751,025	\$ 6,266	
-	-	-	
<u>\$ 1,160,153</u>	<u>\$ 1,751,025</u>	<u>\$ 6,266</u>	

(Continued...)

COUNTY OF HILLSDALE, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2004

	Enterprise Funds			
	Medical Care Facility	2003 Delinquent Tax Revolving	BPW #1 City of Litchfield	BPW #6 Village of Jonesville
Cash flows from operating activities				
Operating income (loss)	\$ (1,093,908)	\$ 57,035	\$ -	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	288,466	-	-	-
Provision for bad debts	164,981	-	-	-
(Increase) decrease in:				
Taxes receivable	-	(849,507)	-	-
Accounts receivable	(1,097,900)	-	-	-
Prepaid expenses	12,948	-	-	-
Increase (decrease) in:				
Accounts payable	995,783	-	-	-
Accrued expenses	(87,342)	-	-	-
Net cash provided (used) by operating activities	<u>\$ (816,972)</u>	<u>\$ (792,472)</u>	<u>\$ -</u>	<u>\$ -</u>

Non-cash transactions

There were no non-cash transactions during the fiscal year.

The accompanying notes are an integral part of these financial statements.

Nonmajor Funds		Totals	Internal Service
\$	113,696	\$ (923,177)	\$ 22,371
	57,025	345,491	-
		164,981	-
	841,263	(8,244)	-
	180,322	(917,578)	4,499
	(6,757)	6,191	-
	(78,337)	917,446	(20,604)
	-	(87,342)	-
\$	1,107,212	\$ (502,232)	\$ 6,266

COUNTY OF HILLSDALE, MICHIGAN
Statement of Fiduciary Net Assets
December 31, 2004

	<u>Agency Funds</u>
Assets	
Cash and cash equivalents	<u>\$ 1,238,642</u>
Liabilities	
Due to other governments	253,898
Undistributed receipts	<u>984,744</u>
Total liabilities	<u>\$ 1,238,642</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Net Assets
Component Units
December 31, 2004

	Drain	Road	
	Commission	Commission	Total
Assets			
Cash and cash equivalents	\$ 486,776	\$ 179,553	\$ 666,329
Special assessments receivable	202,329	-	202,329
Receivables, net	2,065	904,658	906,723
Interest receivable	505	-	505
Prepaid items and other assets	-	680,062	680,062
Capital assets:			
Capital assets not being depreciated	-	3,777,749	3,777,749
Capital assets being depreciated, net	859,785	25,554,515	26,414,300
	<hr/>		
Total assets	1,551,460	31,096,537	32,647,997
<hr/>			
Liabilities			
Accounts payable and accrued expenses	-	193,166	193,166
Notes payable (short term)	-	29,189	29,189
Advances from other funds	257,969	200,350	458,319
Long-term liabilities:			
Due within one year	69,229	424,028	493,257
Due in more than one year	52,000	58,417	110,417
	<hr/>		
Total liabilities	379,198	905,150	1,284,348
<hr/>			
Net assets			
Invested in capital assets, net of related debt	738,556	29,198,629	29,937,185
Unrestricted	433,706	992,758	1,426,464
	<hr/>		
Total net assets	\$ 1,172,262	\$ 30,191,387	\$ 31,363,649
<hr/>			

The accompanying notes are an integral part of these financial statements.

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Activities
Component Units
For the Year Ended December 31, 2004

	Drain Commission	Road Commission	Total
Expenses			
County Drains	\$ 177,325	\$ -	\$ 177,325
County Roads	-	6,943,944	6,943,944
Total expenses	177,325	6,943,944	7,121,269
Program revenues			
Charges for services	145,130	1,873,766	2,018,896
Operating grants and contributions	192,702	5,344,640	5,537,342
Capital grants and contributions	-	724,046	724,046
Total program revenues	337,832	7,942,452	8,280,284
Net revenue	160,507	998,508	1,159,015
General revenues			
Unrestricted investment earnings	3,954	10,542	14,496
Total general revenues	3,954	10,542	14,496
Change in net assets	164,461	1,009,050	1,173,511
Net assets, beginning of year, as restated	1,007,801	29,182,337	30,190,138
Net assets, end of year	\$ 1,172,262	\$ 30,191,387	\$ 31,363,649

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

COUNTY OF HILLSDALE, MICHIGAN

Index

Notes to the Financial Statements

For the Year Ended December 31, 2004

	<u>PAGE</u>
I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES	
A. Reporting Entity	27
B. Government-wide and Fund Financial Statements	30
C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation	31
D. Assets, Liabilities and Equity	34
II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY	
A. Budgetary Information	37
B. Excess of Expenditures over Appropriations	37
C. Deficit Fund Equity	38
III. DETAILED NOTES ON ALL FUNDS	
A. Deposits and Investments	38
B. Receivables	39
C. Capital Assets	40
D. Accounts Payable	43
E. Interfund Receivables, Payables and Transfers	43
F. Long-term Debt	44
IV. OTHER INFORMATION	
A. Risk Management / Self-Insurance Programs	50
B. Property Taxes	52
C. Employee Retirement System and Plans	52
D. Contingent Liabilities	56
E. Restatements	56

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the County have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the County's accounting policies are described below.

A. Reporting entity

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the government.

Blended Component Units

A blended component unit is a legally separate entity from the Local Governmental Unit, but is so intertwined with the Unit that it is, in substance, the same as the Local Governmental Unit. It is reported as part of the Local Governmental Unit and blended into the appropriate fund types and account groups.

Hillsdale County Medical Care Facility

The Hillsdale County Medical Care Facility provides skilled long-term care to residents of the County and is not considered legally separate from the County; therefore, it has been included in the County's basic financial statements as an Enterprise Fund. The complete financial statements may be obtained by contacting:

Hillsdale County Medical Care Facility
140 W. Mechanic Street
Hillsdale, MI 49242
(517) 439-9341

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Building Authority

The Hillsdale County Building Authority is governed by a five-member board appointed by the Hillsdale County Board of Commissioners. Although it is legally separate from Hillsdale County, the Building Authority is reported as if it were part of the primary government because its sole purpose is to finance and construct the County's public buildings.

Department of Public Works

Pursuant to Act 185 of 1957 (MCL 123.732, as amended) the County entered into a program of water supply and sanitary sewer facility construction. The Department of Public Works is under the general control of the County Board of Commissioners and under the immediate control of a Board of Public Works which includes the County Drain Commissioner. The Board of Public Works is considered an agency of the County. The Board manages water supply and sanitary sewer system construction projects that are bonded by the County. Bonds issued are authorized by an ordinance or a resolution approved by the Board of Public Works and adopted by the County Board of Commissioners.

Discretely Presented Component Units

The following component units are reported within the "component units" column in the government-wide financial statements. The discretely presented component unit is an entity that is legally separate from Hillsdale County, but for which the County is financially accountable, or its relationship with the County is such that exclusion would cause the County's financial statements to be misleading or incomplete.

Hillsdale County Road Commission

The County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected three member Board of County Road Commissioners. The Road Commission may not issue debt or levy a tax without the approval of the County Board of Commissioners. If approval is granted, Road Commission taxes are levied under the taxing authority of the County, as approved by the County electors, and would be included as a part of the County total tax levy as well as reported in the County Road Fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Hillsdale County Drain Commission

Each of the drainage districts established pursuant to the Drain Code of 1956 are separate legal entities, with the power to contract, to sue and be sued, to hold, manage and dispose of real and personal property, etc. The statutory drainage board of Chapter 20 (MCL 280.461 et seq.) drainage districts consists of the drain commissioners, the chairperson of the county board of commissioners, and one other member of the board of commissioners. The statutory drainage board of Chapter 5 (MCL 280.101 et seq.) and Chapter 6 (MCL 280.121 et seq.) drainage districts consists of the State Director of Agriculture and the drain commissioners of each county involved in the project. The county drain commissioner has sole responsibility to administer the drainage district established pursuant to Chapter 3 (MCL 280.51 et seq.) and Chapter 4 (MCL 280.71 et seq.) of the Drain Code. The drainage board or drain commissioners, on behalf of the drainage district, may issue debt and levy special assessments authorized by the Drain Code without the prior approval of the county board of commissioners. The full faith and credit of the County may be given for the debt of the drainage district. There is created for each project petitioned for under the provisions of the Chapter 21 (MCL 280.511 et seq.) drainage districts, an augmented drainage board to consist of the members of the drainage board together with the chairman of the board of supervisors and the chairman of the board of county auditors of each county involved. The statutory drainage board of Chapter 8 (MCL 280.191 et seq.) drainage districts consists of the Drain Commissioner, the State Director of Agriculture, and the commissioners of each county involved.

The Hillsdale County Road Commission has a separately issued audit report. Complete financial statements of the individual component units can be obtained from their respective administrative offices or from the Clerk's Office:

Hillsdale County Road Commission
1919 Hudson Road
Hillsdale, Michigan 49242

Related Organizations

LifeWays

Hillsdale County and Jackson County entered into an agreement pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205), to create the Jackson-Hillsdale Mental Health Authority, which later became known as "LifeWays". LifeWays is a legally separate organization established to provide mental health services to residents of the counties.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

It is governed by a twelve (12) member board, including four (4) from Hillsdale County and eight (8) from Jackson County. The County's accountability does not extend beyond this representation and making these appointments. The board may borrow money and issue bonds pursuant to Section 205 of Act 258 of 1974, as amended (MCL 330.1205). LifeWays indemnifies and holds harmless the participating counties from all claims and liabilities.

Hillsdale County's appropriation to LifeWays for the calendar year ended December 31, 2004, was \$ 23,357.

Branch Hillsdale St Joseph District I Health Department

Hillsdale County participates jointly with Branch and St. Joseph Counties in the operation of the Branch, Hillsdale, St. Joseph District I Health Department. All of the financial operations of the District Health Department are recorded in the records of Branch County. It is governed by a seven (7) member board, two (2) from Hillsdale County, two (2) from Branch County, and three (3) from St. Joseph County. The funding formula approved by the members of the county boards of commissioners is based pro rata on each county's population. The current funding formula approved by the District Health Board requires Hillsdale, Branch and St. Joseph Counties to provide 30.1, 29.6, and 40.3 percent, respectively. Hillsdale County's appropriation to the District Health Department for the calendar year ended December 31, 2004, was \$ 293,397, which consists of \$ 274,509 funding formula and \$ 18,888 cigarette tax.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period or within one year for reimbursement based grants. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, State revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The County reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

The *revenue sharing reserve fund* accounts for accelerated property tax collections which are held for the replacement of future State shared revenues.

The County reports the following major proprietary funds:

The *Medical Care Facility fund* is used to account for the operation of the Hillsdale County Medical Care Facility. Financing is provided through charges for services, Medicare and Medicaid reimbursements, and general fund appropriations.

The *2003 delinquent tax revolving fund* accounts for the County's annual purchase of delinquent real property taxes from each of the local taxing units within the County, and the ultimate collection from the property owners of the delinquent taxes with penalty and interest. The fund also accounts for the County's issuance of debt (to provide cash flow for the purchase of the taxes) and for the resulting debt service payments.

The *Board of Public Works #1 and #6 funds* account for sanitary sewer construction projects and related debt service that are bonded by the County.

Additionally, the County reports the following fund types:

Special revenue funds account for revenue sources that are legally restricted to expenditure for specific purposes (not including major capital projects).

Debt service funds account for the servicing of general long-term debt not being financed by proprietary funds.

The *capital projects funds* are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary and trust funds).

Permanent funds. These funds account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support specified government programs.

Enterprise funds. These funds account for those operations that are financed and operated in a manner similar to private business or where the County has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The *internal service fund* accounts for operations that provides the accounting for workers' compensation insurance to other departments or agencies of the County on a cost-reimbursement basis.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. These funds are used to account for assets that the government holds for others in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds and of the government's internal service fund are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

D. Assets, liabilities and equity

1. *Deposits and investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is determined as follows: a) short-term investments are reported at cost, which approximates fair value; b) securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates; c) investments that do not have established market values are reported at estimated fair value; and d) cash deposits are reported at carrying amount, which reasonably approximates fair value.

State statutes authorizes the County to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

2. *Receivables and payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds or component units are offset by a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles, as applicable.

3. *Inventories and prepaid items*

Inventories are valued primarily at cost using the first-in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Infrastructure for the Road Commission component unit has been capitalized back to 1980. Infrastructure of the Drain Commission has been capitalized back to 2003.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	10-50
Equipment	10-25
Vehicles	5-10

Capital assets in the Road Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings and improvements	Straight-line	40
Road equipment	Sum of years-digits	5-8
Other equipment	Straight-line	5-8
Infrastructure	Straight-line	8-50

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Capital assets in the Drain Commission discretely presented component unit are depreciated as follows:

	<u>Methods</u>	<u>Useful Lives - Years</u>
Buildings	Straight-line	25
Equipment	Straight-line	5-10
Infrastructure	Straight-line	50

5. *Compensated absences*

In accordance with County personnel policies and/or contracts negotiated with the various employee groups of the County, upon termination of employment, individual employees have vested rights to receive payment or unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it for employees retiring.

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end.

The Finance Committee receives the preliminary budget requests from departmental heads in September. A proposed operating budget for the fiscal year beginning the following January 1 is submitted to the Board of Commissioners in October. Public hearings are conducted to obtain taxpayer comments. The budget is formally adopted by resolution at the December Board of Commissioners' meeting. Any revisions to the budget must be approved by the Board of Commissioners. Formal budgetary integration is employed as a management control device for the General and Special Revenue Funds. Budgeted amounts are as originally adopted or as amended by the Board of Commissioners during the year.

The legal level of budgetary control is the activity level for the General Fund and the function level for the special revenue funds. The Board of Commissioners made several supplemental budgetary appropriations during the year which were not considered material.

Encumbrance accounting is not employed by the County because it is presently considered unnecessary to reasonably assure budgetary control.

B. Excess of expenditures over appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the County were adopted on a functional level basis, which is the legal level of control.

Expenditures in excess of budgeted amounts at the legal level of control are disclosed in the Statements of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual for the General and Revenue Sharing Reserve Funds.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

C. Deficit fund equity

At year end, the County had the following deficit fund balances:

Workers Compensation Internal Service Fund - \$6,540
Drug Forfeiture Special Revenue Fund - \$4,156

In 2005, the County will file a debt elimination plan with the Michigan Department of Treasury.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

A reconciliation of cash and investments as shown in the basic financial statements is as follows:

Cash on hand	\$ 3,300
Carrying amount of deposits	3,485,229
Carrying amount of investments	<u>976,760</u>
	<u>\$ 4,465,289</u>

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 3,589,655	\$ 666,329	\$ 1,238,642	\$ 5,494,626
Checks in excess of bank balance	<u>(1,029,337)</u>	<u>-</u>	<u>-</u>	<u>(1,029,337)</u>
	<u>\$ 2,560,318</u>	<u>\$ 666,329</u>	<u>\$ 1,238,642</u>	<u>\$ 4,465,289</u>

At year end, the carrying amount of the County's deposits was \$4,514,566. The combined bank balance of these deposits was \$3,802,576, of which \$936,383 was covered by F.D.I.C. insurance. The remaining balance of \$2,866,193 was uninsured and uncollateralized. Since the bank deposits of the primary government and discretely presented component units are pooled, separate risk categorizations or identification of FDIC coverage is not possible.

Investments are categorized for purposes of credit risk as either (1) insured or registered, or securities held by the government or its agent in the government's name, (2) uninsured or unregistered, with securities held by the counterparty's trust department or agent in the government's name, or (3) uninsured or unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

At year end, the County's investment balances were as follows:

U.S. Government Securities	\$ 609,830	Category 2
Government Liquid asset funds	<u>366,930</u>	Uncategorized
	<u>\$ 976,760</u>	

B. Receivables

Receivables in the governmental activities are as follows:

Taxes	\$ 6,160,472
Accounts	77,800
Due from other governments	233,619
Advance to component unit	257,969
Interest	<u>14,806</u>
	<u>\$ 6,744,666</u>

Receivables in the business-type activities are as follows:

Taxes	\$ 1,708,558
Accounts	2,263,154
Due from other governments	2,434,000
Interest	<u>14,049</u>
	<u>\$ 6,419,761</u>

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current fiscal year, the various components of deferred revenue in the general fund and unearned revenue reported in the government-wide financial statement for governmental activities represent uncollected taxes from the Winter 2004 tax levy that are earmarked for the County fiscal year of 2005.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended December 31, 2004 was as follows:

Primary government

	<u>January 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>December 31, 2004</u>
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 330,003	\$ -	\$ -	\$ 330,003
Capital assets being depreciated:				
Buildings and improvements	5,396,229	-	-	5,396,229
Vehicles and equipment	902,479	54,480	-	956,959
Total capital assets being depreciated	<u>6,298,708</u>	<u>54,480</u>	<u>-</u>	<u>6,353,188</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,112,997)	(103,534)	-	(2,216,531)
Vehicles and equipment	(490,575)	(113,819)	-	(604,394)
Total accumulated depreciation	<u>(2,603,572)</u>	<u>(217,353)</u>	<u>-</u>	<u>(2,820,925)</u>
Total capital assets being depreciated, net	<u>3,695,136</u>	<u>(162,873)</u>	<u>-</u>	<u>3,532,263</u>
Governmental activities capital assets, net	<u>\$ 4,025,139</u>	<u>\$ (162,873)</u>	<u>\$ -</u>	<u>\$ 3,862,266</u>
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 489,477	\$ -	\$ 489,477	\$ -
Capital assets being depreciated:				
Land improvements	29,524	-	-	29,524
Buildings and improvements	6,282,705	551,762	197,335	6,637,132
Vehicles and equipment	1,396,888	10,162	258,287	1,148,763
Total capital assets being depreciated	<u>7,709,117</u>	<u>561,924</u>	<u>455,622</u>	<u>7,815,419</u>
Less accumulated depreciation for:				
Land improvements	(29,524)	-	-	(29,524)
Buildings and improvements	(2,968,432)	(248,234)	(185,706)	(3,030,960)
Vehicles and equipment	(1,016,481)	(97,257)	(255,458)	(858,280)
Total accumulated depreciation	<u>(4,014,437)</u>	<u>(345,491)</u>	<u>(441,164)</u>	<u>(3,918,764)</u>
Total capital assets being depreciated, net	<u>3,694,680</u>	<u>216,433</u>	<u>14,458</u>	<u>3,896,655</u>
Business-type activities capital assets, net	<u>\$ 4,184,157</u>	<u>\$ 216,433</u>	<u>\$ 503,935</u>	<u>\$ 3,896,655</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the County as follows:

Governmental activities:

General government	\$ 75,396
Judicial	4,080
Public safety	94,777
Health and welfare	<u>43,100</u>

Total depreciation expense - governmental activities **\$ 217,353**

Business-type activities:

Medical Care Facility	\$ 288,466
E-911 Emergency	<u>57,025</u>

Total depreciation expense - governmental activities **\$ 345,491**

Component Unit – Drain Commission

Activity for the Drain Commission for the year ended December 31, 2004, was as follows:

	January 1, 2004		Additions	Deletions	December 31, 2004
Capital assets being depreciated:					
Buildings	\$ 135,000	\$ -	\$ -	\$ -	\$ 135,000
Equipment	598,487	58,505	84,000		572,992
Infrastructure	301,011	157,624	-		458,635
Total capital assets being depreciated	<u>1,034,498</u>	<u>216,129</u>	<u>84,000</u>		<u>1,166,627</u>
Less accumulated depreciation for:					
Buildings	(27,000)	(5,400)	-		(32,400)
Equipment	(278,068)	(49,854)	(59,500)		(268,422)
Infrastructure	-	(6,020)	-		(6,020)
Total accumulated depreciation	<u>(305,068)</u>	<u>(61,274)</u>	<u>(59,500)</u>		<u>(306,842)</u>
Total capital assets being depreciated, net	<u>\$ 729,430</u>	<u>\$ 154,855</u>	<u>\$ 24,500</u>		<u>\$ 859,785</u>

Depreciation expense was charged to the Public Works Function in the year 2004.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Component Unit – Road Commission

Activity for the Road Commission for the year ended December 31, 2004, was as follows:

	Balance January 1, 2004	Additions	Deductions	Adjustments and Reclassifications	Balance December 31, 2004
Capital assets not being depreciated:					
Land	\$ 74,434	\$ -	\$ -	\$ -	\$ 74,434
Land improvements - infrastructure	3,280,407	422,908	-	-	3,703,315
Subtotal	3,354,841	422,908	-	-	3,777,749
Capital assets being depreciated:					
Buildings and improvements	2,037,665	2,757	-	-	2,040,422
Road equipment	5,314,532	559,924	505,849	-	5,368,607
Shop equipment	88,722	3,140	4,448	(1,238)	86,176
Office equipment	132,686	511	597	-	132,600
Engineers' equipment	60,800	253	5,900	1,093	56,246
Yard and storage	426,599	1,165	799	-	426,965
Depleteable assets	70,400	-	-	-	70,400
Infrastructure	38,130,256	2,445,032	-	-	40,575,288
Subtotal	46,261,660	3,012,782	517,593	(145)	48,756,704
Accumulated depreciation and depletion					
Buildings and improvements	341,537	65,059	-	-	406,596
Equipment	4,397,248	549,574	466,850	542	4,480,514
Depleteable assets	67,156	-	-	-	67,156
Infrastructure	16,538,722	1,709,201	-	-	18,247,923
Total accumulated depreciation	21,344,663	2,323,834	466,850	542	23,202,189
Total capital assets being depreciated - net	24,916,997	688,948	50,743	(687)	25,554,515
Governmental activities capital assets - net	\$ 28,271,838	\$ 1,111,856	\$ 50,743	\$ (687)	\$ 29,332,264

Depreciation expense was charged to the Public Works function in the year 2004.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

D. Accounts payable

Accounts payable and accrued liabilities in the governmental activities are as follows:

Accounts payable	\$ 115,181
Accrued payroll, expenses and deposits	80,510
Due to other governments	51,000
Claims incurred but not reported	6,404
Accrued interest on long-term debt	<u>13,491</u>
Total	<u>\$ 266,586</u>

E. Interfund receivables, payables and transfers

The County has interfund balances between two of its funds. The sum of all balances presented in the tables below agrees with the sum of interfund balances presented in the statements of net assets/balance sheet for governmental funds and proprietary funds. These interfund balances resulted primarily from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. The advance from the General Fund to the Revenue Sharing Reserve Fund is used to provide cash flow to that fund until reimbursements from 2005 taxes are collected.

<u>Fund</u>	<u>Receivable</u>	<u>Payable</u>
General	\$ 526,665	\$ -
Revenue Sharing Reserve	<u>-</u>	<u>526,665</u>
	<u>\$ 526,665</u>	<u>\$ 526,665</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

For the year ended December 31, 2004, interfund transfers consisted of the following:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General	\$ 1,007,665	\$ 896,851
Revenue Sharing Reserve	-	526,665
Nonmajor Governmental Funds	830,956	9,105
Nonmajor Proprietary Funds	-	406,000
	<u>\$ 1,838,621</u>	<u>\$ 1,838,621</u>

F. Long-term debt

Primary government

Governmental activities

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. No general obligation bonds were issued during the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds are typically issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Governmental activities:				
County Building Authority –				
Buildings	\$85,000 to 170,000	5.25 to 5.70%	2016	<u>\$ 1,480,000</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Annual debt service requirements to maturity for governmental activities general obligation bonds are as follows:

Year Ended December 31	Principal	Interest	Total
2005	\$ 85,000	\$ 81,485	\$ 166,485
2006	90,000	77,023	167,023
2007	95,000	72,298	167,298
2008	105,000	67,310	172,310
2009	110,000	61,745	171,745
2010-2014	665,000	209,600	874,600
2016-2017	330,000	28,500	358,500
	\$ 1,480,000	\$ 597,960	\$ 2,077,960

Business-type activities

General obligation bonds. The government issues obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for business-type activities. No general obligation bonds were issued during the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the County. These bonds are typically issued as 10-20 year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

<u>Purpose</u>	<u>Installments</u>	<u>Interest Rates</u>	<u>Due</u>	<u>Amount</u>
Business-type activities:				
County Building Authority – Medical Care Facility Building	\$95,000 to 185,000	4.60 to 4.625%	2018	<u>\$ 1,885,000</u>
Sanitary Sewer – Disposal #2– Pittsford and Jefferson Townships	\$104,000	4.85 to%	2005	<u>\$ 104,000</u>
Sanitary Sewer – City of Litchfield	\$30,000 to 130,000	2.00%	2014	<u>\$ 1,145,000</u>
Water Supply System – Village of Jonesville	\$35,000 to 135,000	4.85 to 5.70%	2015	<u>\$ 1,185,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended December 31	Principal	Interest	Total
2005	\$ 349,000	\$ 172,986	\$ 521,986
2006	250,000	161,981	411,981
2007	295,000	153,167	448,167
2008	330,000	142,251	472,251
2009	375,000	129,426	504,426
2010-2014	1,900,000	413,714	2,313,714
2016-2017	820,000	73,003	893,003
	<u>\$ 4,319,000</u>	<u>\$ 1,246,528</u>	<u>\$ 5,565,528</u>

Delinquent tax notes. The government issues delinquent tax notes to finance the purchase of delinquent real property taxes receivable from each taxing district in the County. These notes are reported in the proprietary funds (i.e., Delinquent Tax Revolving Funds) as they are expected to be repaid from proprietary fund revenues. Principal and interest payments are predicated upon actual collections of delinquent property taxes, which are subject to collection over a period not to exceed three years. Delinquent tax notes outstanding at December 31, 2004, are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

<u>Series</u>	<u>Amount</u>
2004 - 2,000,000 G.O. Limited Tax Notes payable, interest at 2.25 – 3.50%	\$1,300,000
2003 - \$2,000,000 G.O. Limited Tax Notes payable, dated June 3, 2003 – interest at 2.45 – 2.75%	<u>450,000</u>
	<u>\$1,750,000</u>

Annual debt service requirements to maturity are as follows:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,350,000	\$ 32,656	\$ 1,382,656
2006	<u>400,000</u>	<u>10,250</u>	<u>410,250</u>
	<u>\$ 1,750,000</u>	<u>\$ 42,906</u>	<u>\$ 1,792,906</u>

Drain Commission component unit

Notes payable. The Drain Commission issues notes payable for equipment and the construction or major maintenance of drainage and lake level districts. Such notes are repaid by local property owners or equipment rentals through a revolving fund.

	<u>Due</u>	<u>Installments</u>	<u>Interest Rate</u>	<u>Amount</u>
Various drain construction and equipment notes	Various	\$69,229 to \$11,000	2.82 to 5.25%	<u>\$ 121,229</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Annual debt service requirements to maturity for drain notes are as follows:

Year Ended June 30	Principal	Interest	Total
2005	\$ 69,229	\$ 1,019	\$ 70,248
2006	20,500	-	20,500
2007	20,500	-	20,500
2008	11,000	-	11,000
	\$ 121,229	\$ 1,019	\$ 122,248

Road Commission component unit

Notes payable. The Road Commission has issued a note payable for an excavator. This note provides for annual installments of \$79,460, which includes interest at 4% with the last payment due September 16, 2006.

Annual debt service requirements to maturity for this note is as follows:

<u>Year ended December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 75,218	\$ 4,241	\$ 79,459
2006	<u>58,417</u>	<u>1,176</u>	<u>59,593</u>
	<u>\$ 133,635</u>	<u>\$ 5,417</u>	<u>\$ 139,052</u>

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Changes in long-term debt.

Long-term debt liability activity for the year ended December 31, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Governmental activities					
1996 Building Authority	\$ 1,560,000	\$ -	\$ 80,000	\$ 1,480,000	\$ 85,000
Compensated absences	362,315	9,144	-	371,459	35,000
	\$ 1,922,315	\$ 9,144	\$ 80,000	\$ 1,851,459	\$ 120,000
Business - type activities					
Bonds:					
1998 Building Authority	\$ 1,975,000	\$ -	\$ 90,000	\$ 1,885,000	\$ 95,000
BPW #1 - Litchfield	1,255,000	-	110,000	1,145,000	115,000
BPW #2 - Pittsford/Jefferson	213,000	-	109,000	104,000	104,000
BPW #6 - Jonesville	1,220,000	-	35,000	1,185,000	35,000
Total bonds	4,663,000	-	344,000	4,319,000	349,000
Notes:					
GO Limited Tax Notes 2002	450,000	-	450,000	-	-
GO Limited Tax Notes 2003	1,450,000	-	1,000,000	450,000	450,000
GO Limited Tax Notes 2004	-	2,000,000	700,000	1,300,000	900,000
Total Notes	1,900,000	2,000,000	2,150,000	1,750,000	1,350,000
Total Business - type activities	\$ 6,563,000	\$ 2,000,000	\$ 2,494,000	\$ 6,069,000	\$ 1,699,000
Drain Commission component unit					
Caterpillar 312 C1	\$ 30,993	\$ -	\$ 18,342	\$ 12,651	\$ 12,651
Caterpillar 315 C1	44,975	-	23,397	21,578	21,578
Murray Joint Intercounty	35,000	-	-	35,000	35,000
Walker Interstate Drain	-	33,000	-	33,000	-
Doty-Chamberlain	-	19,000	-	19,000	-
	\$ 110,968	\$ 52,000	\$ 41,739	\$ 121,229	\$ 69,229
Road Commission component unit					
2004 Excavator	\$ -	\$ 153,500	\$ 19,865	\$ 133,635	\$ 75,218
Compensated absences	333,906	14,904	-	348,810	348,810
	\$ 333,906	\$ 168,404	\$ 19,865	\$ 482,445	\$ 424,028

For the governmental activities, compensated absences are generally liquidated by the general fund.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

IV. OTHER INFORMATION

A. Risk Management / Self-Insurance Program

The County is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries (workers' compensation), as well as medical benefits provided to employees. The County has purchased commercial insurance for employee medical benefit claims, participates in the Michigan Municipal Risk Management Authority (risk pool) for claims relating to property loss, torts, errors and omissions, and personal injuries, and participates in a risk pool at Employer's Reinsurance Corporation for claims relating to workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority (risk pool) program operates as a claims servicing pool for amounts up to member retention limits, and operates as a common risk-sharing management program for losses in excess of member retention amounts. Although premiums are paid annually to the Authority, and the Authority uses the premiums to pay claims up to the retention limits, the ultimate liability for those claims remains with the County. As of December 31, 2004, the County estimates that its funds on deposit with the Authority are sufficient to cover any outstanding claims. Accordingly, no liability has been recorded.

Workers' Compensation. The government maintains a self-insurance program for workers' compensation coverage which is accounted for in an internal service fund (i.e., the Workers' Compensation fund). The program is administered by a third party administrator who conducts safety inspections and provides claims review and processing services. Premiums are paid into the internal service fund by all other funds based on payrolls and job classifications and are available to pay claims, claim reserves, excess coverage and administrative costs.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. An excess coverage insurance policy covers individual claims in excess of \$350,000 subject to an annual aggregate limit of \$768,232. Liabilities include an amount for claims that have been incurred but not reported (IBNR). Changes in the balances of claims liabilities during the past two years are as follows:

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

	<u>2004</u>	<u>2003</u>
Unpaid claims, beginning of year	\$ 33,410	\$ 33,410
Incurred claims (including IBNR's)	35,629	128,833
Claim payments	<u>(62,635)</u>	<u>(128,833)</u>
Unpaid claims, end of year	<u>\$ 6,404</u>	<u>\$ 33,410</u>

The Road Commission is a member of the Michigan County Road Commission Self-Insurance Pool ("Pool") established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions to the performance of these contracts.

The Michigan County Road Commission Self-Insurance Pool was established for the purpose of making a self-insurance pooling program available for Michigan County Road Commissions, which includes, but is not limited to, general liability coverages, auto liability coverages, property insurance coverages, stop loss insurance protection, claims administration, and risk management and loss control services pursuant to Michigan Public Act 138 of 1982.

The Hillsdale County Road Commission pays an annual premium to the Pool for property (buildings and grounds) coverage, automobile liability, errors or omissions liability and bodily injury, property damage and personal injury liability. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission is also self-insured for workers' compensation as a member of the County Road Association Worker's Compensation Fund

In the past three years, there have been no reductions in coverages, nor have settlements exceeded coverages. Management of the Road Commission believes that losses, if any, in excess of Insurance Pool coverages would not be material to the financial position of the Road Commission.

The Road Commission continues to carry commercial insurance for employee health and accident insurance.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

B. Property taxes

Public Act 357 of 2004 provides a funding mechanism to serve as a substitute to county revenue sharing payments. This substitute funding mechanism involves a gradual shift of county property tax millage from a winter tax levy to a summer tax levy and additionally, required the establishment of a restricted fund known as the Revenue Sharing Reserve Fund.

Through 2004, the County property tax was levied each December 1 on the assessed valuation of property located in the County as of the preceding December 31. On December 1, the property tax assessment was an enforceable lien on property and is payable by the last day of the following February. Assessed values are established annually by the County and are equalized by the State of Michigan at an estimated 50% of current market value.

The assessed and taxable value of real and personal property for the 2003 levy, for which revenue was recognized in 2004, was \$1,076,403,576. The general operating tax rate for this levy was 5.0078 mills with an additional 0.2435 mills, 0.4777 mills and 0.5848 mills assessed for contracted ambulance service, Senior Services, and Medical Care Facility operations, respectively.

C. Employee retirement systems and plans

Defined Contribution Pension Plan - Primary Government

The County provides pension benefits to all of its full-time employees (except for the Sheriff's Department) through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Hillsdale County Retirement Fund, the County contributes 6.5 percent for all the general County employees' gross earnings and 4 percent for all Medical Care Facility employees. Employees contribute 2-10 percent of earnings. In accordance with these requirements, the County contributed \$472,736 for the year ended December 31, 2004 and employees contributed \$369,452.

The Hillsdale County Board of Commissioners established both plans and may amend them and the related contribution requirements, subject to the County's various collective bargaining agreements. The plans are administered and the assets are in the custody of third-party insurance companies.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Defined Benefit Pension Plan – Primary Government

Plan Description - MERS

Employees of the Sheriff Department, except the Sheriff and Under sheriff, are eligible to participate in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer, defined benefit pension plan. The System is administered by the MERS retirement board. MERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, MI 48917, or by calling (800) 767-6377.

Funding Policy

The County is required to contribute at an actuarially determined rate; the current rate for the County is 7.5 to 8% of annual covered payroll for each employee group. All participating employees are required to contribute between 2% and 10% percent of their annual salary. The contribution requirements of the County are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the County Board of Commissioners, depending on the MERS contribution program adopted by the County.

For the year ended December 31, 2004, the annual pension cost of \$130,752 was equal to the required and actual contributions of the County. The required contributions were determined as part of the December 31, 2003 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5% per year after retirement for certain retirees depending on the benefit option selected. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The County's unfunded actuarial accrued liability is being amortized over a period of 30 years as a level percentage of projected payroll on an open basis. The latest actuarial valuation was performed as of December 31, 2003.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/01	\$ 106,926	100%	\$ -
12/31/02	131,258	100	-
12/31/03	130,752	100	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/01	\$ 392,255	\$ 2,577,642	\$ 2,185,387	15%	\$1,402,681	156%
12/31/02	668,575	2,888,009	2,219,434	23	1,549,242	143
12/31/03	1,308,037	3,575,849	2,267,812	37	1,745,556	130

Defined Benefit Pension Plan - Road Commission

Plan Description

The Road Commission's defined benefit pension plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The Road Commission participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Funding Policy

The Road Commission is required to contribute at an actuarially determined rate; the current employer's contribution rate of annual covered payroll is 3.74% for Association members and 11.90% for non-Association members. Certain employees are currently not required to contribute to the Plan. The contribution requirements of the Road Commission are established by Act No. 427 of the Public Acts of 1984, as amended, and may be amended by the Retirement Board of MERS. The contribution requirements of plan members, if any, are established and may be amended by the Road Commission. In addition, Road Commission Association employees are currently required to contribute 3.3% of annual compensation, and non-Association 5.3% of annual compensation.

Annual Pension Cost

For the year ended December 31, 2004, the Road Commission's annual pension cost of \$123,395 for MERS was equal to the Road Commission's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0%, (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation, and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The Road Commission's unfunded actuarial accrued liability as of December 31, 2003, the date of the latest actuarial valuation, is being amortized as a level percentage of projected payroll on an open basis over 30 years.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
12/31/02	\$ 91,519	100%	\$ -
12/31/03	111,598	100	-
12/31/04	123,395	100	-

COUNTY OF HILLSDALE, MICHIGAN

Notes to the Financial Statements

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/02	\$ 2,854,840	\$ 3,940,766	\$ 1,085,926	72%	\$ 1,812,002	60%
12/31/03	3,022,118	4,197,737	1,175,619	72	1,774,515	66
12/31/04	3,364,902	4,649,366	1,284,464	72	1,871,340	69

D. Contingent Liabilities

Amounts received or receivable from grantor agencies and health care intermediaries including Medicare and Medicaid are subject to audit and adjustment by the grantor agencies or intermediaries. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors or intermediaries cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government and its component units, individually or jointly, are a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government and component unit's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

E. Restatements

The Sheriff Department Retirement fund was changed from an internal service fund to an agency fund in 2004 to properly report its activities. This reduced internal service net assets and governmental net assets by \$ 35,777 effective January 1, 2004.

Fund balances of the debt service funds and capital project funds in the amount of \$797 relating to Board of Public Works sewer projects were reclassified as enterprise fund activities in 2004 in order to comply with Michigan Committee on Governmental Accounting and Auditing Statement #10 issued June 2002. This reduced governmental net assets and increased business-type net assets by \$797 effective January 1, 2004.

The Worker's Compensation Internal Service Fund net assets at January 1, 2004 were restated (decreased) by \$33,410 in order to record estimated claims payable at December 31, 2003.

* * * * *

**COMBINING and INDIVIDUAL FUND
FINANCIAL STATEMENTS and SCHEDULES**

COUNTY OF HILLSDALE, MICHIGAN

Combining Balance Sheet

Nonmajor Funds

December 31, 2004

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 37,039	\$ 974	\$ 15,239	\$ 4,694	\$ 21,449
Accounts receivable	-	-	-	-	-
Grants receivable	-	-	-	-	-
Interest receivable	59	-	-	-	-
<u>TOTAL ASSETS</u>	\$ 37,098	\$ 974	\$ 15,239	\$ 4,694	\$ 21,449
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 5,767	\$ -	\$ 640	\$ -	\$ -
Accrued liabilities	1,577	-	-	-	-
Due to other governments	-	-	-	-	-
Advances and deferred revenue	5,330	-	-	-	-
Total liabilities	12,674	-	640	-	-
Fund balances					
Unreserved:					
Undesignated	24,424	974	14,599	4,694	21,449
Total fund balances	24,424	974	14,599	4,694	21,449
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	\$ 37,098	\$ 974	\$ 15,239	\$ 4,694	\$ 21,449

Special Revenue

Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care
\$ 99,611	\$ 93	\$ 3,446	\$ 4,791	\$ 29,866	\$ 57,484	\$ 54,305
-	-	-	-	-	2,441	-
-	-	-	-	-	11,565	-
-	-	-	-	-	-	-
\$ 99,611	\$ 93	\$ 3,446	\$ 4,791	\$ 29,866	\$ 71,490	\$ 54,305
\$ -	\$ 4,249	\$ -	\$ 444	\$ 50	\$ -	\$ -
-	-	-	-	-	-	-
-	-	-	-	-	51,000	-
-	-	-	-	-	-	-
-	4,249	-	444	50	51,000	-
99,611	(4,156)	3,446	4,347	29,816	20,490	54,305
99,611	(4,156)	3,446	4,347	29,816	20,490	54,305
\$ 99,611	\$ 93	\$ 3,446	\$ 4,791	\$ 29,866	\$ 71,490	\$ 54,305

continued...

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Special Revenue Funds (Concluded)
December 31, 2004

	<u>Special Revenue</u>				<u>Debt Service</u>
	<u>Probate Child Care</u>	<u>Soldiers' and Sailors' Relief</u>	<u>Veterans' Trust</u>	<u>Building Inspection</u>	<u>DHS Building Authority</u>
<u>ASSETS</u>					
Assets					
Cash and cash equivalents	\$ 25,566	\$ 3,951	\$ 393	\$ 48,749	\$ 455
Accounts receivable	1,211	-	-	13,064	-
Grants receivable	-	-	-	-	-
Interest receivable	77	-	-	-	-
<u>TOTAL ASSETS</u>	<u>\$ 26,854</u>	<u>\$ 3,951</u>	<u>\$ 393</u>	<u>\$ 61,813</u>	<u>\$ 455</u>
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities					
Accounts payable	\$ 13,232	\$ 1,811	\$ -	\$ 804	\$ -
Accrued liabilities	5,715	-	-	3,671	-
Due to other governments	-	-	-	-	-
Advances and deferred revenue	-	-	-	-	-
Total liabilities	18,947	1,811	-	4,475	-
Fund balances					
Unreserved:					
Undesignated	7,907	2,140	393	57,338	455
Total fund balances	7,907	2,140	393	57,338	455
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 26,854</u>	<u>\$ 3,951</u>	<u>\$ 393</u>	<u>\$ 61,813</u>	<u>\$ 455</u>

Capital Projects		Permanent Funds			Total
Improvement	DHS Building Authority	Cemetery Trust	MCF Endowment	Carl Gilmore Trust	
\$ 805,529	\$ 6,263	\$ 234	\$ 2,543	\$ 46	\$ 1,222,720
-	-	-	-	-	16,716
-	-	-	-	-	11,565
3,848	-	1	-	-	3,985
<u>\$ 809,377</u>	<u>\$ 6,263</u>	<u>\$ 235</u>	<u>\$ 2,543</u>	<u>\$ 46</u>	<u>\$ 1,254,986</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,997
-	-	-	-	-	10,963
-	-	-	-	-	51,000
-	-	-	-	-	5,330
-	-	-	-	-	94,290
<u>809,377</u>	<u>6,263</u>	<u>235</u>	<u>2,543</u>	<u>46</u>	<u>1,160,696</u>
<u>809,377</u>	<u>6,263</u>	<u>235</u>	<u>2,543</u>	<u>46</u>	<u>1,160,696</u>
<u>\$ 809,377</u>	<u>\$ 6,263</u>	<u>\$ 235</u>	<u>\$ 2,543</u>	<u>\$ 46</u>	<u>\$ 1,254,986</u>

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes
in Fund Balances
Nonmajor Funds
December 31, 2004

	Parks	Ambulance	Tobacco and Alcohol Diversion	Senior Citizen	Friend of the Court
Revenue					
Property taxes	\$ -	\$ 250,527	\$ -	\$ 491,504	\$ -
Contributions	-	-	-	-	-
Fines and forfeits	-	-	22,415	-	7,060
Charges for services	37,203	-	-	-	-
Refunds and reimbursements	-	-	-	-	-
Interest and rentals	594	-	-	-	-
Other revenue	25,000	-	-	-	-
Total revenue	62,797	250,527	22,415	491,504	7,060
Expenditures					
Current:					
Judicial	-	-	-	-	3,282
General government	-	-	-	-	-
Public safety	-	-	15,716	-	-
Health and welfare	-	250,429	-	490,671	-
Recreation and culture	72,358	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	72,358	250,429	15,716	490,671	3,282
Revenue over (under) expenditures	(9,561)	98	6,699	833	3,778
Other financing sources (uses)					
Transfers in	-	-	-	-	-
Transfers (out)	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net changes in fund balances	(9,561)	98	6,699	833	3,778
Fund balances, beginning of year	33,985	876	7,900	3,861	17,671
Fund balances (deficit), end of year	\$ 24,424	\$ 974	\$ 14,599	\$ 4,694	\$ 21,449

Special Revenue							
Register of Deeds Automation	Drug Forfeiture	Law Enforcement Training	County Law Library	Child Abuse	Department of Human Services	Department of Human Services Child Care	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
-	-	-	-	-	-	-	
73,875	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	4,569	6,546	9,707	2,003	221,017	30,520	
73,875	4,569	6,546	9,707	2,003	221,017	30,520	
-	-	-	14,763	-	-	-	
23,690	-	-	-	-	-	-	
-	8,725	6,151	-	5,070	-	-	
-	-	-	-	-	268,408	177,424	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	
23,690	8,725	6,151	14,763	5,070	268,408	177,424	
50,185	(4,156)	395	(5,056)	(3,067)	(47,391)	(146,904)	
-	-	-	-	-	48,000	119,105	
-	-	-	-	-	-	-	
-	-	-	-	-	48,000	119,105	
50,185	(4,156)	395	(5,056)	(3,067)	609	(27,799)	
49,426	-	3,051	9,403	32,883	19,881	82,104	
\$ 99,611	\$ (4,156)	\$ 3,446	\$ 4,347	\$ 29,816	\$ 20,490	\$ 54,305	

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes
in Fund Balances
Special Revenue Funds (Concluded)
December 31, 2004

	Special Revenue				Debt Service
	Probate Child Care	Soldiers' and Sailors' Relief	Veterans' Trust	Building Inspection	DHS Building Authority
Revenue					
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	-	-	-	-	(50)
Fines and forfeits	-	-	-	-	-
Charges for services	-	-	-	528,377	-
Refunds and reimbursements	17,684	-	-	-	-
Interest and rentals	587	-	-	-	40
Other revenue	119,040	4,223	1,918	14,327	-
Total revenue	137,311	4,223	1,918	542,704	(10)
Expenditures					
Current:					
Judicial	-	-	-	-	-
General government	-	-	-	-	-
Public safety	-	-	-	484,103	-
Health and welfare	599,531	52,943	2,411	-	-
Recreation and culture	-	-	-	-	-
Capital outlay	-	-	-	-	-
Debt service					
Principal	-	-	-	-	80,000
Interest	-	-	-	-	85,735
Total expenditures	599,531	52,943	2,411	484,103	165,735
Revenue over (under) expenditures	(462,220)	(48,720)	(493)	58,601	(165,745)
Other financing sources (uses)					
Transfers in	450,000	47,686	-	-	166,165
Transfers (out)	(9,105)	-	-	-	-
Total other financing sources (uses)	440,895	47,686	-	-	166,165
Net changes in fund balances	(21,325)	(1,034)	(493)	58,601	420
Fund balances, beginning of year	29,232	3,174	886	(1,263)	35
Fund balances (deficit), end of year	\$ 7,907	\$ 2,140	\$ 393	\$ 57,338	\$ 455

Capital Projects		Permanent Funds				
Improvement	DHS Building Authority	Cemetery Trust	MCF Endowment	Carl Gilmore Trust	Total	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 742,031	
-	-	-	-	-	(50)	
-	-	-	-	-	103,350	
-	-	-	-	-	565,580	
-	-	-	-	-	17,684	
13,310	34	1	162	-	14,728	
11,000	-	-	-	-	449,870	
24,310	34	1	162	-	1,893,193	
-	-	-	-	-	18,045	
10,908	-	-	-	1	34,599	
-	-	-	-	-	519,765	
-	-	-	-	-	1,841,817	
-	-	-	-	-	72,358	
-	81	-	-	-	81	
-	-	-	-	-	80,000	
-	-	-	-	-	85,735	
10,908	81	-	-	1	2,652,400	
13,402	(47)	1	162	(1)	(759,207)	
-	-	-	-	-	830,956	
-	-	-	-	-	(9,105)	
-	-	-	-	-	821,851	
13,402	(47)	1	162	(1)	62,644	
795,975	6,310	234	2,381	47	1,098,052	
\$ 809,377	\$ 6,263	\$ 235	\$ 2,543	\$ 46	\$ 1,160,696	

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Net Assets
Nonmajor Enterprise Funds
December 31, 2004

	1997	1998	1999	2000
	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
<hr/>				
Assets				
Current assets:				
Cash and cash equivalents	\$ 2,132	\$ 7,681	\$ 73,913	\$ 96,651
Taxes receivable	5,659	7,001	1,999	6,045
Accounts receivable	-	-	-	887
Prepaid expenses	-	-	-	-
Interest receivable	-	-	-	-
Current portion of lease receivable	-	-	-	-
Noncurrent assets:				
Capital assets	-	-	-	-
	<hr/>			
Total assets	7,791	14,682	75,912	103,583
	<hr/>			
Liabilities				
Current liabilities:				
Accounts payable	-	-	8	-
Accrued liabilities	-	-	-	-
Due to other governments	-	-	74	1,154
Current portion of long-term debt	-	-	-	-
	<hr/>			
Total liabilities	-	-	82	1,154
	<hr/>			
Net assets				
Invested in capital assets	-	-	-	-
Restricted by statute	-	-	42,343	75,594
Unrestricted	7,791	14,682	33,487	26,835
	<hr/>			
Total net assets	\$ 7,791	\$ 14,682	\$ 75,830	\$ 102,429
	<hr/>			

2001 Delinquent Tax Revolving	2002 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	Total
\$ 270,031	\$ 610,736	\$ 33,757	\$ 65,172	\$ 80	\$ 1,160,153
7,065	180,506	-	-	-	208,275
-	-	93,402	-	-	94,289
-	-	102	-	-	102
6,950	-	12	-	-	6,962
-	-	-	-	104,000	104,000
-	-	134,679	-	-	134,679
284,046	791,242	261,952	65,172	104,080	1,708,460
1,116	1,133	12,888	67	-	15,212
-	-	6,476	-	-	6,476
10,534	6,920	-	-	-	18,682
-	450,000	-	-	104,000	554,000
11,650	458,053	19,364	67	104,000	594,370
-	-	134,679	-	-	134,679
159,289					277,226
113,107	333,189	107,909	65,105	80	702,185
\$ 272,396	\$ 333,189	\$ 242,588	\$ 65,105	\$ 80	\$ 1,114,090

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Revenue, Expenses
and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Year Ended December 31, 2004

	1997	1998	1999	2000
	Delinquent	Delinquent	Delinquent	Delinquent
	Tax Revolving	Tax Revolving	Tax Revolving	Tax Revolving
Operating revenue				
Charges for services	\$ -	\$ -	\$ 277	\$ 721
Refunds and reimbursements	-	-	-	-
Other operating revenue	-	-	-	-
Total operating revenue	-	-	277	721
Operating expense				
Cost of services	-	-	1,726	2,020
Operating income (loss)	-	-	(1,449)	(1,299)
Non-operating revenue (expenses)				
Interest revenue	-	-	877	3,564
Interest expense	-	-	-	-
Total non-operating revenue (expenses)	-	-	877	3,564
Income (loss) before transfers	-	-	(572)	2,265
Transfers				
Transfers in	-	-	-	-
Transfers out	(20,000)	(51,000)	-	(100,000)
Total transfers	(20,000)	(51,000)	-	(100,000)
Change in net assets	(20,000)	(51,000)	(572)	(97,735)
Net assets, beginning of year, as restated	27,791	65,682	76,402	200,164
Net assets, end of year	\$ 7,791	\$ 14,682	\$ 75,830	\$ 102,429

2001 Delinquent Tax Revolving	2002 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	Total
\$ 211,763	\$ 114,796	\$ 659,994	\$ 585	\$ -	\$ 988,136
-	-	53,982	-	-	53,982
-	-	78,485	-	120,341	198,826
211,763	114,796	792,461	585	120,341	1,240,944
25,095	30,105	864,965	82,996	120,341	1,127,248
186,668	84,691	(72,504)	(82,411)	-	113,696
66,644	118,912	1,996	-	4	191,997
(8,850)	(11,608)	-	-	-	(20,458)
57,794	107,304	1,996	-	4	171,539
244,462	191,995	(70,508)	(82,411)	4	285,235
-	-	-	75,000	-	75,000
(310,000)	-	-	-	-	(481,000)
(310,000)	-	-	75,000	-	(406,000)
(65,538)	191,995	(70,508)	(7,411)	4	(120,765)
337,934	141,194	313,096	72,516	76	1,234,855
\$ 272,396	\$ 333,189	\$ 242,588	\$ 65,105	\$ 80	\$ 1,114,090

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds
For the Year Ended December 31, 2004

	1997 Delinquent Tax Revolving	1998 Delinquent Tax Revolving	1999 Delinquent Tax Revolving	2000 Delinquent Tax Revolving
Cash flows from operating activities				
Cash received from customers	\$ 239	\$ 4,676	\$ 1,834	\$ 9,926
Cash payments to suppliers for goods and services	-	(233)	(1,672)	(2,003)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) operating activities	239	4,443	162	7,923
	<hr/>	<hr/>	<hr/>	<hr/>
Cash flows from non-capital financing activities				
Tax notes redeemed	-	-	-	-
Transfers in	-	-	-	-
Transfers out	(20,000)	(51,000)	-	(100,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash provided by non-capital financing activities	(20,000)	(51,000)	-	(100,000)
	<hr/>	<hr/>	<hr/>	<hr/>
Cash flows from capital and related financing activities				
Interest payments	-	-	-	-
Principal payments	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Net cash provided by (used in) capital and related financing activities	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Cash flows from investing activities				
Interest received	-	-	877	3,564
Proceeds from investments	-	-	-	-
Amounts collected on leases receivable	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total cash provided from investing activities	-	-	877	3,564
	<hr/>	<hr/>	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(19,761)	(46,557)	1,039	(88,513)
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents, beginning of year	21,893	54,238	72,874	185,164
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and cash equivalents, end of year	<u>\$ 2,132</u>	<u>\$ 7,681</u>	<u>\$ 73,913</u>	<u>\$ 96,651</u>

2001 Delinquent Tax Revolving	2002 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	Total
\$ 339,113	\$ 1,050,439	\$ 735,376	\$ 585	\$ 120,341	\$ 2,262,529
(116,876)	(27,943)	(803,615)	(82,634)	(120,341)	(1,155,317)
222,237	1,022,496	(68,239)	(82,049)	-	1,107,212
(450,000)	(1,000,000)	-	-	-	(1,450,000)
-	-	-	75,000	-	75,000
(310,000)	-	-	-	-	(481,000)
(760,000)	(1,000,000)	-	75,000	-	(1,856,000)
(8,850)	(11,608)	-	-	-	(20,458)
-	-	-	-	(109,000)	(109,000)
(8,850)	(11,608)	-	-	(109,000)	(129,458)
66,644	118,912	1,996	-	4	191,997
750,000	405,000	100,000	-	-	1,255,000
-	-	-	-	109,000	109,000
816,644	523,912	101,996	-	109,004	1,555,997
270,031	534,800	33,757	(7,049)	4	677,751
-	75,936	-	72,221	76	482,402
\$ 270,031	\$ 610,736	\$ 33,757	\$ 65,172	\$ 80	\$ 1,160,153

(Continued...)

COUNTY OF HILLSDALE, MICHIGAN
Combining Statement of Cash Flows
Nonmajor Enterprise Funds (Concluded)
For the Year Ended December 31, 2004

	1997		1998		1999		2000
	Delinquent		Delinquent		Delinquent		Delinquent
	Tax Revolving		Tax Revolving		Tax Revolving		Tax Revolving
Cash flows from operating activities							
Operating income (loss)	\$ -	\$	-	\$	(1,449)	\$	(1,299)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:							
Depreciation	-		-		-		-
(Increase) decrease in:							
Accounts receivable	-		-		-		(887)
Taxes receivable	239		4,676		1,557		10,092
Prepaid expenses	-		-		-		-
Increase (decrease) in:							
Accounts payable	-		(233)		54		17
Net cash provided by (used in) operating activities	\$ 239	\$	4,443	\$	162	\$	7,923

2001 Delinquent Tax Revolving	2002 Delinquent Tax Revolving	E-911 Emergency	Geographic Information Systems	BPW #2 Townships of Jefferson and Pittsford	Total
\$ 186,668	\$ 84,691	\$ (72,504)	\$ (82,411)	\$ -	\$ 113,696
-	-	57,025	-	-	57,025
	238,294	(57,085)		-	180,322
127,350	697,349	-	-	-	841,263
(6,950)	-	(102)	295	-	(6,757)
(84,831)	2,162	4,427	67	-	(78,337)
\$ 222,237	\$ 1,022,496	\$ (68,239)	\$ (82,049)	\$ -	\$ 1,107,212

COUNTY OF HILLSDALE, MICHIGAN
Combining Balance Sheet
Fiduciary Funds
December 31, 2004

	Trust & Agency	Library Penal Fines	Sheriff Department Retirement	Total
<hr/>				
Assets				
Cash and cash equivalents	\$ 1,097,791	\$ 105,660	\$ 35,191	\$ 1,238,642
<hr/>				
Liabilities				
Due to other governments	\$ 253,897	\$ 1	\$ -	\$ 253,898
Undistributed receipts	843,894	105,659	35,191	984,744
<hr/>				
<u>TOTAL LIABILITIES</u>	\$ 1,097,791	\$ 105,660	\$ 35,191	\$ 1,238,642
<hr/>				

COUNTY OF HILLSDALE, MICHIGAN
Statement of Net Assets / Governmental Funds Balance Sheet
Drain Commission Component Unit
December 31, 2004

	Debt Service	Capital		
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment
Assets				
Cash and cash equivalents	\$ 1,923	\$ 300,350	\$ 10,595	\$ 87,521
Special assessments receivable	-	157,341	-	44,988
Accounts receivable	-	-	-	-
Interest receivable	-	412	-	93
Due from other funds	-	-	228,894	-
Capital assets, net	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,923</u>	<u>\$ 458,103</u>	<u>\$ 239,489</u>	<u>\$ 132,602</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Due to other funds	-	228,894	-	-
Advances from primary government	-	-	239,489	-
Long-term liabilities:				
Due within one year	-	-	-	-
Due in more than one year	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>-</u>	<u>228,894</u>	<u>239,489</u>	<u>-</u>
Fund balances				
Unreserved, undesignated (deficit)	<u>1,923</u>	<u>229,209</u>	<u>-</u>	<u>132,602</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances (deficit)	<u>1,923</u>	<u>229,209</u>	<u>-</u>	<u>132,602</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 1,923</u>	<u>\$ 458,103</u>	<u>\$ 239,489</u>	<u>\$ 132,602</u>
Net assets				
Invested in capital assets, net of related debt				
Unrestricted				
Total net assets				

Projects			Internal Service				Statement of Net Assets
Lake Level Revolving	Drain Construction	Drain Equipment Revolving	Total	Adjustments			
\$ 16,415	\$ 4,308	\$ 65,664	\$ 486,776	\$ -	\$ 486,776		
-	-	-	202,329	-	202,329		
2,065	-	-	2,065	-	2,065		
-	-	-	505	-	505		
-	-	-	228,894	(228,894)	-		
-	-	407,170	407,170	452,615	859,785		
\$ 18,480	\$ 4,308	\$ 472,834	\$ 1,327,739	223,721	1,551,460		
\$ -	\$ -	\$ -	\$ -	-	-		
-	-	-	228,894	(228,894)	-		
18,480	-	-	257,969	-	257,969		
-	-	34,229	34,229	35,000	69,229		
-	-	-	-	52,000	52,000		
18,480	-	34,229	521,092	(141,894)	379,198		
-	4,308	438,605	806,647	(806,647)	-		
-	4,308	438,605	806,647	(806,647)	-		
\$ 18,480	\$ 4,308	\$ 472,834	\$ 1,327,739				
				738,556	738,556		
				433,706	433,706		
				\$ 1,172,262	\$ 1,172,262		

COUNTY OF HILLSDALE, MICHIGAN
Drain Commission Component Unit
Reconciliation of Governmental Fund Balance Sheet
to Statement of Net Assets
DECEMBER 31, 2004

Fund balances - Governmental funds	\$ 806,647
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	452,615
Long - term liabilities are not due and payable in the current period and are not reported in the funds:	
Installment lease purchase agreements payable	<u>(87,000)</u>
Net assets of governmental activities	<u><u>\$ 1,172,262</u></u>

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities / Governmental Funds Revenue,
Expenditures, and Changes in Fund Balances
Drain Commission Component Unit
For the Year Ended December 31, 2004

	Debt Service			Capital
	Drain Construction Debt	Drain Special Assessment	Drain Revolving	Lake Level Special Assessment
Revenue				
Interest revenue	\$ 2	\$ 4,258	\$ -	\$ 1,259
Equipment rentals	-	-	-	-
Other revenue	1,617	141,780	-	14,998
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	1,619	146,038	-	16,257
	<hr/>	<hr/>	<hr/>	<hr/>
Expenditures/Expenses				
Public works	-	162,871	-	10,478
Depreciation	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total expenditures/expenses	-	162,871	-	10,478
	<hr/>	<hr/>	<hr/>	<hr/>
Revenue (under) expenditures/expenses	1,619	(16,833)	-	5,779
	<hr/>	<hr/>	<hr/>	<hr/>
Other financing sources				
Issuance of long-term debt	-	52,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total other financing sources	-	52,000	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Change in fund balances / net assets	1,619	35,167	-	5,779
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets, beginning of year	304	194,042	-	126,823
	<hr/>	<hr/>	<hr/>	<hr/>
Fund balances / net assets, end of year	<hr/> <hr/> \$ 1,923	<hr/> <hr/> \$ 229,209	<hr/> <hr/> \$ -	<hr/> <hr/> \$ 132,602

Projects

Lake Level Revolving		Drain Construction		Total		Adjustments		Statement of Net Assets	
\$	-	\$	4	\$	5,523	\$	(1,569)	\$	3,954
	-		-		-		145,130		145,130
	-		34,307		192,702		-		192,702
	-		34,311		198,225		143,561		341,786
	-		30,940		204,289		(88,238)		116,051
	-		-		-		61,274		61,274
	-		30,940		204,289		(26,964)		177,325
	-		3,371		(6,064)		170,525		164,461
	-		-		52,000		(52,000)		-
	-		-		52,000		(52,000)		-
	-		3,371		45,936		118,525		164,461
	-		937		322,106		685,695		1,007,801
\$	-	\$	4,308	\$	368,042	\$	804,220	\$	1,172,262

COUNTY OF HILLSDALE, MICHIGAN
Drain Commission Component Unit
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
FOR THE YEAR ENDED DECEMBER 31, 2004

Net change in fund balance - Governmental funds	\$ 45,936
---	-----------

Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - Infrastructure additions	157,624
Deduct - depreciation expense	(6,020)

Repayment of debt principal is an expenditure in the funds but not in the statement of activities:

Deduct - Proceeds from debt issuances	(52,000)
---------------------------------------	----------

Internal service funds are used by management to charge the costs of certain activities, such as insurance and other centralized costs, to individual funds. The net revenue of the Drain Equipment revolving internal service fund is reported with governmental activities on the statement of net assets:

18,921

Change in net assets of governmental activities	<u><u>\$ 164,461</u></u>
---	--------------------------

COUNTY OF HILLSDALE, MICHIGAN
Statement of Activities / Governmental Funds Revenue,
Expenditures, and Changes in Fund Balances
Drain Commission Component Unit
Internal Service - Drain Equipment Revolving Fund
For the Year Ended December 31, 2004

Revenue	
Equipment rental	\$ 145,130
	<hr/>
Expenditures/Expenses	
Current	
Public works	66,589
Debt service	
Principal	-
Interest	2,797
	<hr/>
Total operating expenses	69,386
	<hr/>
Operating income	75,744
	<hr/>
Non-operating revenue (expenses)	
Depreciation expense	(55,254)
Interest revenue	(1,569)
	<hr/>
Total non-operating expense	(56,823)
	<hr/>
Change in net assets	18,921
	<hr/>
Net assets, beginning of year	419,684
	<hr/>
Net assets, end of year	<u><u>\$ 438,605</u></u>

SINGLE AUDIT ACT COMPLIANCE

COUNTY OF HILLSDALE, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2004

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Grant/ Agreement/ Account Number	Receipts/ Revenue Recognized	Disbursements/ Expenditures
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>				
Passed-through Community Action Agency - Community Development Grant	14.228	xxx	<u>\$ 123,058</u>	<u>\$ 123,058</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>				
Passed-through The Office of Community Oriented Policing Services COPS Universal Hiring Award	16.710	2002UMWX0330	<u>108,495</u>	<u>108,495</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>				
Passed-through the Department of Human Services - IV-D Support Incentive	93.560	n/a	109,452	109,452
Child Support Enforcement: Friend of the Court	93.563	CSFOC-04-30001	366,023	366,023
Prosecuting Attorney		CSPA-04-30002	49,427	49,427
Medical Support Enforcement: Friend of the Court	93.563	CSMED-04-30001	<u>21,841</u>	<u>21,841</u>
Total U.S. Department of Health and Human Services			<u>546,743</u>	<u>546,743</u>
<u>FEDERAL EMERGENCY MANAGEMENT AGENCY</u>				
Passed-through Michigan Department of State Police H.O.R.N.E.T. Enhancement Project	84.186	n/a	17,982	17,982
Emergency Management - State and Local Assistance 2003 State Homeland Security Grant Program Part II Solution Area Planner	97.004	n/a	19,135	19,135
Exercise Grant			6,316	6,316
Training Grant			9,574	9,574
2004 State Homeland Security Grant Program Part V	97.004	n/a	205,467	205,467
Emergency Management Performance Grant	97.042	n/a	<u>3,388</u>	<u>3,388</u>
Total Federal Emergency Management Agency			<u>261,862</u>	<u>261,862</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 1,040,158</u>	<u>\$ 1,040,158</u>

COUNTY OF HILLSDALE, MICHIGAN

Note to Schedule Of Expenditures of Federal Awards

For the Year Ended December 31, 2004

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the County of Hillsdale, Michigan, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

Note 2 Fiscal Year

Federal expenditures reported on the accompanying schedule of expenditures of federal awards include certain amounts that are reported for the year ended September 30, 2004 to coincide with the fiscal year of the fund in which the expenditures are reported. The funds passed through the Michigan Family Independence Agency and the Michigan Department of Community Health are presented for the year ended September 30, 2004.



REHMANN ROBSON

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

July 29, 2005

The Board of Commissioners
County of Hillsdale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **COUNTY OF HILLSDALE** as of and for the year ended December 31, 2004, and have issued our report thereon dated July 29, 2005. We did not audit the financial statements of the Medical Care Facility, which is a major fund, and therefore a separate opinion unit. The Medical Care Facility represents 51% and 87% of the business-type activity assets and program revenues, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Medical Care Facility, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Medical Care Facility Enterprise Fund were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Hillsdale County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsdale County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to management of Hillsdale County in a separate letter dated July 29, 2005.

This report is intended solely for the information and use of the audit committee, management, the Board of Commissioners, others within the organization, and federal awarding and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

 an independent member of
BAKER TILLY
INTERNATIONAL

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM
AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

July 29, 2005

The Board of Commissioners
County of Hillsdale, Michigan

Compliance

We have audited the compliance of the **COUNTY OF HILLSDALE** with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2004. The **County of Hillsdale's** major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the **County of Hillsdale's** management. Our responsibility is to express an opinion on the **County of Hillsdale's** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the **County of Hillsdale's** compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the **County of Hillsdale's** compliance with those requirements.

In our opinion, the **County of Hillsdale** complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the *County of Hillsdale* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *County of Hillsdale's* internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

However, we noted other matters involving the internal control over compliance, financial reporting and/or operating efficiency that we have reported to the management of *County of Hillsdale* in a separate letter dated July 29, 2005.

We did not audit the financial statements of the Medical Care Facility, which is a major fund, and therefore a separate opinion unit. The Medical Care Facility represents 51% and 87% of the business-type activity assets and program revenues, respectively. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, in so far as it relates to the amounts included for the Medical Care Facility, is based solely on the reports of the other auditors. The financial statements of the Medical Care Facility were not audited in accordance with Government Auditing Standards.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the Board of Commissioners and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Noncompliance material to financial statements
noted?

_____ yes X no

Federal Awards

Internal Control over major programs:

Material weakness(es) identified?

_____ yes X no

Reportable condition(s) identified
not considered to be material weaknesses?

_____ yes X none reported

Type of auditors' report issued on compliance
for major programs:

Unqualified

Any audit findings disclosed that are required
to be reported in accordance with
Circular A-133, Section 510(a)?

_____ yes X no

COUNTY OF HILLSDALE, MICHIGAN

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2004

SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.563	Child Support Enforcement – IV-D CRP

Dollar threshold used to distinguish
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes no

SECTION II – FINANCIAL STATEMENT FINDINGS

None.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None.

SECTION IV - PRIOR YEAR FEDERAL AWARD FINDINGS

None.

* * * * *



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



July 29, 2005

The Board of Commissioners
County of Hillsdale, Michigan
Hillsdale, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **County of Hillsdale, Michigan** as of and for the year ended December 31, 2004, and have issued our report thereon dated July 29, 2005. The audit report reflected an unqualified opinion on these financial statements. We did not audit the financial statements of the Medical Care Facility Enterprise Fund. Other auditors whose reports were furnished to us audited those financial statements.

Professional standards require that we provide you with the following information related to your audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered Hillsdale County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether Hillsdale County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about Hillsdale County's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on Hillsdale County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on Hillsdale County's compliance with those requirements.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. No new accounting policies were adopted and the application of existing policies was not changed during the year. The significant accounting policies used by the County of Hillsdale are described in Note 1 to the basic financial statements.

We noted no transactions entered into by Hillsdale County during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the useful lives of depreciable capital assets in the governmental and business-type activities is based on the length of time it is believed that those assets will provide some economic benefit in the future.

Management's estimate of the "Incurred But Not Reported" liability in the Workers Compensation Self Insurance Internal Service Fund is based on a history of claims experience.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Hillsdale County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Hillsdale County, either individually or in the aggregate, indicate matters that could have a significant effect on Hillsdale County's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Hillsdale County’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information and the attached memorandum is intended solely for the use of the Board of Commissioners and management of Hillsdale County and should not be used for any other purpose. However, this report is a matter of public record, and its distribution is not limited.

Very truly yours,

A handwritten signature in black ink, reading "Lehmann Lobson". The signature is written in a cursive, flowing style with a large initial 'L'.

COUNTY OF HILLSDALE, MICHIGAN

COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2004

During our audit we became aware of certain matters that are opportunities for strengthening internal control and operating efficiency. This memorandum summarizes our comments and recommendations regarding those matters. A separate report dated July 29, 2005 contains our report on the County's internal control structure. This memorandum does not affect our report dated July 29, 2005, on the financial statements of Hillsdale County.

We will review the status of these comments during our next audit engagement. We have already discussed many of these matters with County management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the County in implementing the recommendations.

Grant Program Accounting

We noted that several County grants have been recorded through the Trust and Agency account in 2004. This condition resulted in extra time sorting out the grant receipts and disbursements out of the applicable agency accounts in order to determine the proper presentation of the revenues and expenditures for the annual Schedule of Expenditures of Federal Awards. The accounting method presently used does not conform to the Michigan Department of Treasury chart of accounts, nor does it conform to generally accepted accounting principles.

We recommend that all grants be recorded in the general fund – disbursements as expenditures and receipts as revenues in order to properly track grant activity and determine a proper balance for each grant. Some grants may be recorded in separate special revenue funds depending on the size of the grant and if there is a requirement to be recorded in a separate fund.

Fund Deficit – Drug Forfeiture Fund

At December 31, 2005, there was a deficit of \$4,156 in the Drug Forfeiture Special Revenue Fund, which is a violation of the Uniform Accounting and Budgeting Act. There were amounts paid in January 2005 which applied to December 2004 in the amount of \$4,249 which exceeded the cash balance of \$93 which accounted for the deficit.

In the future, the Sheriff Department should make disbursements out of the account only if there is a sufficient cash balance available. The Department should maintain a log which depicts the available cash balance for that fund.

COUNTY OF HILLSDALE, MICHIGAN

COMMENTS AND RECOMMENDATIONS (Continued)

For The Year Ended December 31, 2004

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the County's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the government's unique circumstances.

As is the case with many organizations of similar size, the County in several Departments lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal controls carries with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the County's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the County's internal control structure, and cannot not be relied upon as part of management's systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

We noted in our audit that for the District Court depository account that the daily cashing out of the cash drawer and preparation of the bank reconciliation duties are performed by the same individual. We recommend that another District Court employee review the monthly bank reconciliation, and document this step by initialing and dating.

COUNTY OF HILLSDALE, MICHIGAN

COMMENTS AND RECOMMENDATIONS (Concluded)

For The Year Ended December 31, 2004

Financial Procedures Manual

The County currently has no financial procedures manual in place in which all the significant financial procedures and policies are documented.

As the County operations are growing, and outside regulations and directives are becoming more complex, we feel that preparation of a financial procedures manual would provide a useful tool and resource for daily financial operations. This document would also enhance cross-training of employees.

Financial Coordinator Position

Our review of the operations of the County, and knowledge of other municipalities of comparable size across the State would indicate that Hillsdale County is understaffed relative to its accounting function. In our opinion, the accounting function needs to be better coordinated between departments. The County is presently on a cash basis general ledger system, and the conversion to the accrual basis of accounting at the end of the year takes a significant amount of time of various County personnel and representatives of the outside audit firm to bring the general ledger system into compliance with the Michigan Department of Treasury Chart of Accounts and Uniform Accounting manual for Counties.

We recommend that the County consider establishing the position of Finance Director or Finance Coordinator to be charged with the full time responsibility of managing the general ledger of the County. Such a position should be filled with a Certified Public Accountant (or an individual of comparable experience and expertise in fund accounting) capable of managing the finances of an organization with assets and revenue in the primary government of approximately \$25 million and \$27 million, respectively. Besides implementing the accrual and modified accrual basis of accounting for all of the County funds, this individual would be a resource for budgeting, financial planning, grant coordination, and other financial management tasks which would certainly be worth the additional cost of the position.

We recognize that such a position would bring with it a significant cost to the County, and may be part of an even larger undertaking should the County ever go to an Administrator/Controller form of managing the day to day operations of the County. However, given the growth the County has experienced in recent years, the increasing complexity of its accounting systems, and the wide-spread changes to the governmental accounting and reporting model that have emerged over the past two years, we believe this is an addition that warranted.

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